

The Audit Findings for Shropshire Council

Year ended 31 March 2020

29th October 2020



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Your key Grant Thornton
team members are:

Richard Percival

Director

T: 0121 232 5434

E: Richard.d.percival@uk.gt.com

Mary Wren

Manager

T: 0121 232 5254

E: mary.wren@uk.gt.com

Siobhan Barnard

In-charge

T: 0121 232 5121

E: Siobhan.barnard@uk.gt.com

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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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 Council's financial statements for the year ended 31 March 2020 for those charged with governance.

Covid-19

The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council. This has included front line challenges such as the administration of grants to businesses, closure of car parks and leisure centres with additional challenges of reopening services under new government guidelines.

There have also been back office challenges for example the move to remote working for staff and reallocation of staff across departments to support service delivery. We are aware the Audit Committee were taken through an extensive presentation on the Council's response to Covid-19 at a training meeting on 8 September 2020. The key areas covered were Business Continuity and Emergency Planning, managing staff and financial processes.

Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financial statements to 30 November 2020.

The Council published its draft financial statements on its website on 10th July 2020. A version of the financial statements were made available to the audit team at the same time.

The Covid-19 pandemic occurred prior to the start of the year end audit of the financial statements and after we issued our audit plan which was reported to Audit Committee on 25 February 2020. In response to this a plan addendum was presented to the Audit Committee (virtual meeting) on 31 July 2020 which reported a financial statement level risk in respect of Covid -19 and highlighted the impact on our VfM approach.

Following the government's announcement on Monday 23 March 2020, we closed our Grant Thornton offices and your audit team have been working from home since this date. Although there are some audit tasks which are best undertaken in person, we have been able to carry out appropriate audit procedures remotely. Restrictions for non-essential travel has meant both Council and audit teams have had to adapt to a new way of working, for example; remote accessing financial systems via screen sharing, video calling, physical verification of assets and additional procedures to validate the completeness and accuracy of information produced by the entity (IPE).

Due to remote working and methods of reviewing source reports (for example screensharing) certain audit procedures have taken longer than prior years. We would like to extend our thanks to the Finance team for their continued support during a time where they are facing additional pressures to support the local community the council serves, for example the payment of business rate grants. We continue to work closely with your finance team to make this different way of working as efficient as possible for the remainder of the 2019/20 audit but also consider how we can all take the positive experiences from this period of remote working and integrate into our working arrangements going forward.

There is only one significant impact on the financial statements in relation to Covid-19. This relates to the valuation of land and property. We will be including an "Emphasis of Matter" paragraph in our audit opinion. This will highlight the material valuation uncertainties for land and buildings valuations identified by the Council's valuers and reported in the accounts. This does not affect our opinion that the financial statements give a true and fair view of the Council's financial position and its income and expenditure for the year. Such a paragraph is added to indicate a matter which is disclosed appropriately in the Council's financial statements but which we consider is fundamental to a readers' understanding of the financial statements.

We discuss this further on page 11.

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 Council's financial statements for the year ended 31 March 2020 for those charged with governance.

<p>Financial Statements</p>	<p>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 Council's financial statements:</p> <ul style="list-style-type: none"> • give a true and fair view of the financial position of the Council and its 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. <p>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.</p>	<p>Our audit work was completed remotely during June – October. Our findings are summarised on pages 6 to 18. At the time of drafting this report we have identified a number of disclosure and presentation adjustments. No adjustments have been identified which result in changes to the Council's Comprehensive Income and Expenditure Statement and Balance Sheet . Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.</p> <p>Financial accounts and supporting systems</p> <p>The 2019/20 final accounts audit began on 6 July 2020 and as stated above our work has been completed remotely in light of the Covid-19 pandemic. As per the Audit Scoping Letter to the S151 officer on 1 May 2020 the original planned date for the submission draft accounts to us for audit was 30 June 2020 and as such we planned resources around this date.</p> <p>We were made aware at a meeting with the Council's finance team on 1 June 2020 that draft financial statements would not be available until 13 July 2020. Audit resources were reallocated where possible however due to this delay, combined with the impact of remote working further resources were required to complete the audit .</p> <p>Remote working has highlighted the complexity of some of the Council's underlying financial systems. It has taken additional time to explain the audit trail of transactions remotely. We estimate that combined with the impact of remote working this has extended the core final accounts audit process by 2 - 3 weeks plus additional review procedures by the Audit Manager and Engagement Lead. This will impact of the final audit fee.</p> <p>Our work is substantially complete, subject to satisfactory resolution of the following outstanding matters we anticipate issuing an unqualified opinion:</p> <ul style="list-style-type: none"> • Receipt of responses to outstanding queries with the Finance team to complete audit testing • Completion of our work on the valuation of Shopping Centres • Completion of our work on group accounts • Receipt of outstanding queries in relation to our sample testing and questions raised with the Council's actuary • Receipt of assurances from the Shropshire Pension Fund auditor in respect of information provided to the actuary • Final review procedures to be completed by Audit Manager and Engagement Lead • Receipt of management representation letter • Review of the final set of financial statements • Completion of our work on the Whole of Government Accounts • Completion of our work on Subsequent events <p>We are expecting to conclude 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.</p>
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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 Council's financial statements for the year ended 31 March 2020 for those charged with governance.

Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	We have completed our risk based review of the Council's value for money arrangements and have concluded that Shropshire Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Our risk based planning identified the Council's financial sustainability as a value for money risk. We updated our risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new value for money risks specifically in relation to Covid-19 for our 2019/20 audit. We therefore anticipate issuing an unqualified value for money conclusion. Our findings are summarised on pages 19 to 22.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: <ul style="list-style-type: none">• 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. We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

Audit approach

Overview of the scope of our audit

This Audit Findings Report 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 and the NAO's Code of Audit Practice ('the Code'). Its contents have been discussed with management.

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 included:

- An evaluation of the Council's internal controls environment, including its IT systems and controls;
- 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 not had to alter our audit plan, as communicated to you on 25 February 2020 and plan addendum on 31 July 2020.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved as noted on page 4 we anticipate issuing an unqualified audit opinion including an Emphasis of Matter - this details a material uncertainty regarding the valuation of land and buildings due to COVID – 19.

We have raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

Subject to satisfactory conclusion of the outstanding matters listed above our anticipated audit report opinion will be unmodified including an Emphasis of Matter - this details a material uncertainty regarding the valuation of land and buildings due to COVID – 19.

Audit approach

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 on 25th February 2020.

	Amount (£) Group materiality	Amount (£) Single entity materiality	Qualitative factors considered
Materiality for the financial statements	£8,700,000	£8,600,000	We determined materiality for the audit of the Council's financial statements as a whole to be £8.7m(Group) and £8.6m (single entity statements), which equates to approximately 1.5% 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	£6,500,000	£6,400,000	We use a different level of materiality, performance materiality, to drive the extent of our testing and this was set at 75% of financial statement materiality for the audit of the financial statements. Our consideration of performance materiality is based upon a number of factors: <ul style="list-style-type: none"> • We are not aware of a history of significant deficiencies or a high number of deficiencies in the control environment. • There has not historically been a large number or significant misstatements arising as a result of the financial statements audits at the Council. • Senior management and key reporting personnel in the finance function has remained stable from the prior year audit.
Trivial matters	£435,000	£430,000	We determined the threshold at which we will communicate misstatements to the Audit Committee to be £435k.
Materiality for specific transactions, balances or disclosures	£100,000	£100,000	In accordance with ISA320 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.

Significant audit risks

Risks identified in our Audit Plan

Covid – 19

The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;

- Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation
- Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates
- Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and
- Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.

We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.

Auditor commentary

We:

- worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation’s ability to prepare the financial statements and update financial forecasts and assessed the implications for our audit approach
- liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Council’s property valuation expert
- evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic;
- evaluated whether sufficient audit evidence could be obtained through remote technology;
- evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as asset valuations and recovery of receivables balances;
- evaluated management’s assumptions that underpin the revised financial forecasts and the impact on management’s going concern assessment;
- discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence.

As a result of our procedures and as set out on page 10 a material uncertainty in respect of the valuation of land and buildings as at 31 March 2020 has been reported in the financial statements. We will draw attention to this uncertainty through inclusion of an emphasis of matter paragraph to be included in our audit report.

We have not identified any further material uncertainties in relation to Covid-19 that would result in a material misstatement in the financial statements.

Significant audit risks

Risks identified in our Audit Plan

The revenue cycle includes fraudulent transactions – rebutted

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.

Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride 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, which was one of the most significant assessed risks of material misstatement.

Auditor commentary

Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:

- there is little incentive to manipulate revenue recognition
- opportunities to manipulate revenue recognition are very limited
- the culture and ethical frameworks of local authorities, including Shropshire Council, mean that all forms of fraud are seen as unacceptable

Therefore, we do not consider this to be a significant risk for Shropshire Council. Whilst not a significant risk, as part of our audit work we did undertake work on material revenue items. Our work did not identify any matters that would indicate our rebuttal was incorrect.

We have undertaken the following work in relation to this risk:

- evaluated the design effectiveness of management controls over journals
- analysed the journals listing and determine the criteria for selecting high risk unusual journals
- tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration
- gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence
- evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Our audit work at the Council has not identified any issues in respect of management override of controls.

Significant audit risks

Risks identified in our Audit Plan

Valuation of land and buildings (periodic revaluation with desktop valuation in intervening years)

The Council revalues its land and buildings on a five-yearly basis. To ensure the carrying value in the Council and group financial statements is not materially different from the current value at the financial statements date, the Council requests a desktop valuation from its valuation expert. This valuation represents a significant estimate by management in the financial statements due to the value involved (£1,069 million in the Council's balance sheet as at 31 March 2019) and the sensitivity of this estimate to changes in key assumptions.

We have therefore identified valuation of land and buildings as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.

Commentary

Auditor commentary

We have undertaken the following work in relation to this risk:

- 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 completeness and consistency with our understanding
- Tested revaluations made during the year to see if they had been input correctly into the Authority's asset register

Findings

We have nothing to report in respect of the planned work above, subject to any matters arising from the final Engagement Lead review of the worked carried out.

Disclosures regarding material valuation uncertainty

The outbreak of Covid-19 has caused uncertainty in property markets. As a result, the Council's valuers have included reference to a material uncertainty in their valuation report.

The Council have disclosed the estimation uncertainty related to the year-end valuations of land and buildings in note 4 to the financial statements 'Assumptions made about the future and other major sources of estimation uncertainty.'

The disclosure within note 4 includes:

- A background to the circumstances and reason for the disclosure
 - An explicit statement that the valuer has included a material valuation uncertainty regarding asset valuations

The disclosure does not include a sensitivity analysis.

We consider this disclosure is sufficiently detailed to meet the requirements of the accounting standards and that it is important to a readers understanding of the financial statements. As such, we plan to draw attention to the uncertainty through the inclusion of an Emphasis of Matter within the audit report.

We are satisfied that the value of Property, Plant and Equipment is not materially misstated within the financial statements.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
<p>Valuation of pension fund net liability</p> <p>The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£40.891m in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We have:</p> <ul style="list-style-type: none"> • updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluated the instructions issued by management to their management expert (an 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 Council's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • 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; and <p>Findings</p> <p>At the time of drafting this report, we are yet to receive the information and assurances requested from the auditor of Shropshire Pension Fund and responses from the pension fund actuary to a number of questions we have raised in relation to the material experience gains included in the IAS 19 valuation report.</p> <p>We are aware that there is a possibility that the Pension Fund Auditor will include an emphasis of matter in the audit report drawing attention to a material valuation uncertainty relating to the Fund's real estate portfolio. Where this is the case, we will need to consider the impact on our own report and the need for associated disclosure within the Council's financial statements.</p> <p>Subsequent to the publication of the draft financial statements, the proposed remedy to the McCloud judgement was published for consultation. Pension fund actuaries have identified that this could have an impact on the calculated net pension fund liability and that the liability is likely to be overstated. We are currently discussing with management the implications of this and the disclosures required to be included in the revised financial statements.</p> <p>Other than these outstanding areas, our work in this area has progressed and to date, we have not identified any significant issues.</p>

Significant findings – other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue

IFRS 16 implementation has been delayed by one year

Although the implementation of IFRS 16 has been delayed to 1 April 2021, audited bodies still need to include disclosure in their 2019/2020 statements to comply with the requirement of IAS 8 para 31.

Commentary

We have reviewed the draft financial statements and no disclosures have been made in relation to IFRS 16.

As a minimum, we would expect disclosures of the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases

Dedicated Schools Grant

The Council had a cumulative overspend of £2.247m as 31 March 2020 due to insufficient government funding. We have reviewed the statement from CIPFA which confirms the guidance in LAAP bulletin 99 Local Authority Reserves and Balances remains extant i.e. it “neither anticipates nor allows for a voluntary earmarked balance to be presented in a deficit position.”

Financial statements note 38 reports a net nil position at the year end for Dedicated Schools Grant (DSG). This should however show a net deficit of £2.247m. In order to clarify we would expect the following :

- Restate note 38 to make clear that there is a deficit being carried forward to 20/21
- Add narrative to explain that the deficit arising on the DSG has been agreed as a carried forward against school balances (earmarked reserves) and will be applied against the 20/21 grant next year.”

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 Joint Committee, the Jersey Property Unit Trust (including SSC No 1 Limited) and the new housing development company Cornovii Developments Limited. The group accounts also include financial transactions that will enable IP&E Limited to be dissolved during 2020/21.

In our audit plan we said we would carry out a full scope audit of STaR and an analytical review of the other group entities.

We have completed our audit of STaR and there are no matters that we need to bring to the Audit Committee’s attention.

At the time of writing our analytical review of the other group entities and consideration of the group consolidation was still in progress. We will update the Audit Committee if there are any matters arising.


Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Land and Buildings – Other - £500m	<p>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 2020. All assets were subject to a Full or Desktop Valuation as at 31/03/20 to ensure the carrying amount reflected Fair Value as at the balance sheet date.</p> <p>Assets revalued during 2019/20 totalled £555.040 million.</p>	<p>We have</p> <ul style="list-style-type: none"> • Undertaken an assessment of management's experts • Reviewed the completeness and accuracy of the underlying information used to determine the estimate • Reviewed the impact of any changes to valuation method • Checked the consistency of estimate against near neighbours • Agreed the reasonableness of the decrease in estimate • Reviewed the adequacy of disclosure of estimate in the financial statements <p>Overall we are satisfied with the approach taken and that the valuation of the other land and buildings within the financial statements is not materially misstated.</p>	 Green
Land and Buildings – Council Housing - £200m	<p>The Council owns 4,049 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 District Valuer to complete the valuation of these properties. The year end valuation of Council Housing was £200.025 million in the draft accounts, a net increase from the 2018/19 balance of £196.631 million.</p>	<p>The total housing stock was revalued as at 31 March 2020 as part of the full valuation which is undertaken every five years. We have reviewed the basis of this valuation, challenging the assumptions made by the Valuer, assessing the information which was provided to them by the Council and then verifying that the values were correctly transferred into the Housing Revenue Account and the group financial statements.</p> <p>Overall we are satisfied with the approach taken and that the valuation of the Council Housing within the financial statements is not materially misstated.</p>	 Green

Assessment

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

Significant findings – key judgements and estimates

Summary of management’s policy	Audit Comments	Assessment																							
<p>Net pension liability – £40.891m</p> <p>The Council’s total net pension liability at 31 March 2020 per the draft accounts is £495.7m (PY £490.6m) .</p> <p>The Council uses Mercers to provide actuarial valuations of the Council’s assets and liabilities derived from the Local Government Pension Scheme in which it participates, (which is the Shropshire Pension Fund, administered by the Council.</p> <p>A full actuarial valuation is required every three years. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.</p> <p>The 31st March 2019 formal valuations for English and Welsh LGPS Funds were concluded by 31st March 2020, as such the Council’s Balance Sheet position as at 31 March 2020 is based on this new roll forward from the 2019 formal valuation. This differs to the balance sheet position as at 31 March 2019 and the charge to the P&L for 2019/20, which were based on a roll forward from the 2016 formal valuation. This change has led to sizeable asset and liability ‘remeasurement experience’ items in the reconciliation of the balance sheet from 31 March 2019 to 31 March 2020.</p>	<p>PwC were engaged by the Audit Commission (and subsequently the NAO) as consulting actuary to undertake a central review of the actuaries used by the Local Government Pension Scheme (LGPS).</p> <p>They produce a report designed to provide support to auditors when assessing the competence and objectivity of, and assumptions and approach adopted by, actuaries producing IAS 19 figures in respect of the LGPS, Police and Fire schemes as at 31 March 2020.</p>	 Green																							
<table border="1"> <thead> <tr> <th data-bbox="899 482 1404 568">Assumption</th> <th data-bbox="1404 482 1539 568">Actuary Value</th> <th data-bbox="1539 482 1736 568">PwC range</th> <th data-bbox="1736 482 1922 568">Assessment</th> </tr> </thead> <tbody> <tr> <td data-bbox="899 575 1404 646">Discount rate</td> <td data-bbox="1404 575 1539 646">2.4%</td> <td data-bbox="1539 575 1736 646">2.3%-2.4%</td> <td data-bbox="1736 575 1922 646"></td> </tr> <tr> <td data-bbox="899 654 1404 782">Pension increase rate</td> <td data-bbox="1404 654 1539 782">2.1%</td> <td data-bbox="1539 654 1736 782">Dependent on duration 2.10%for most employers</td> <td data-bbox="1736 654 1922 782"></td> </tr> <tr> <td data-bbox="899 789 1404 861">Salary growth</td> <td data-bbox="1404 789 1539 861">3.35%</td> <td data-bbox="1539 789 1736 861">Employer specific</td> <td data-bbox="1736 789 1922 861"></td> </tr> <tr> <td data-bbox="899 868 1404 939">Life expectancy – Males currently aged 45 / 65</td> <td data-bbox="1404 868 1539 939">24.2</td> <td data-bbox="1539 868 1736 939">22.5 – 24.7</td> <td data-bbox="1736 868 1922 939"></td> </tr> <tr> <td data-bbox="899 946 1404 1008">Life expectancy – Females currently aged 45 / 65</td> <td data-bbox="1404 946 1539 1008">26.6</td> <td data-bbox="1539 946 1736 1008">25.9 - 27.7</td> <td data-bbox="1736 946 1922 1008"></td> </tr> </tbody> </table>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.4%	2.3%-2.4%		Pension increase rate	2.1%	Dependent on duration 2.10%for most employers		Salary growth	3.35%	Employer specific		Life expectancy – Males currently aged 45 / 65	24.2	22.5 – 24.7		Life expectancy – Females currently aged 45 / 65	26.6	25.9 - 27.7		<ul style="list-style-type: none"> • 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. • Reasonableness of the Council’s share of LGPS pension assets. • Reasonableness of decrease in estimate • Adequacy of disclosure of the estimate in the financial statements
Assumption	Actuary Value	PwC range	Assessment																						
Discount rate	2.4%	2.3%-2.4%																							
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Life expectancy – Females currently aged 45 / 65	26.6	25.9 - 27.7																							

Assessment

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

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Provisions - NNDR appeals - £6.390m	The Council is responsible for repaying a proportion of successful rateable value appeals. Management calculate the level of provision required based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates.	<p>We have:</p> <ul style="list-style-type: none"> Reviewed the appropriateness of the underlying information used to determine the estimate Considered the reasonableness of increase/decrease in estimate Confirmed the adequacy of disclosure of estimate in the financial statements <p>We are satisfied that the overall provision is not materially misstated.</p>	<p>●</p> <p>Green</p>

Assessment

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

Significant findings - Going concern

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).

Going concern commentary

Management's assessment process

Auditor commentary

Going Concern is defined as “the concept that the local authority will remain in operational existence for the foreseeable future, in particular that the revenue accounts and balance sheet assume no intention to curtail significantly the scale of operations.”

The Council's financial statements are prepared on going concern basis on the grounds that budgets are in place and are being measured and managed to ensure that liabilities can be met as and when they fall due.

Audit procedures undertaken have not found any indication of the existence of going concern events or conditions which may cast significant doubt on the Authority's ability to continue as a going concern. The Council budgets more than a year in advance and undertakes frequent spending reviews where budgets are adjusted where required.

Work performed

Auditor commentary

We have reviewed the budgetary processes in place and would note the following:

- We are satisfied from our review of the Council's reserves balance that it has sufficiency of usable reserves (e general fund and earmarked reserves) to support its finances should its savings plans not be delivered, but clearly reserves can only be used once.
- The Council is rightly concerned that there are a number of unknowns in its funding, especially with regard to the Business Rates Reset. However, in and of itself, this is not considered to cast significant doubt on the Council's ability to continue as a going concern.
- The Council has reviewed its Medium Term Financial Plan (MTFP) in light of Covid 19– we are aware that this is a situation which is changing as funding announcements are being made however we are satisfied that the Council has updated its MTFP with known developments and communicated the effects of this to Those Charged With Governance (TCWG).

Concluding comments

We therefore agree with the Council's conclusion that the going concern assumption is appropriate.

Other matters for communication

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	Auditor commentary
Matters in relation to fraud	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> A letter of representation has been requested from the Council, which is appended.
Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send confirmation requests to those organisations with which is banks, invests and borrows from. This permission was granted. We have identified no issues from the work performed to date.
Disclosures	<ul style="list-style-type: none"> We have requested enhanced disclosures in respect of Events After the Balance Sheet Date. There were no other significant disclosure omissions or amendments made to the draft 2019-20 draft financial statements as a result of audit procedures.
Audit evidence and explanations/significant difficulties	<ul style="list-style-type: none"> All information and explanations requested from management were provided as requested however, remote working has highlighted the complexity of the Council's underlying financial systems. It has taken additional time to explain the audit trail of transactions through remote working rather than discussing processes and procedures in person. We estimate that combined with the impact of remote working this has extended the core final accounts audit process by 2 – 3 weeks plus additional review procedures by the Audit Manager and Engagement Lead.

Other responsibilities under the Code

Issue	Commentary
Other information	<p>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.</p> <p>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to appendix E</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties <p>We have nothing to report on these matters</p>
Specified procedures for Whole of Government Accounts	<p>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. This work is not required as the Council does not exceed the threshold</p>
Certification of the closure of the audit	<p>We intend to certify the closure of the 2019/20 audit of Shropshire Council upon completion of Whole of Government Accounts.</p>

Value for Money

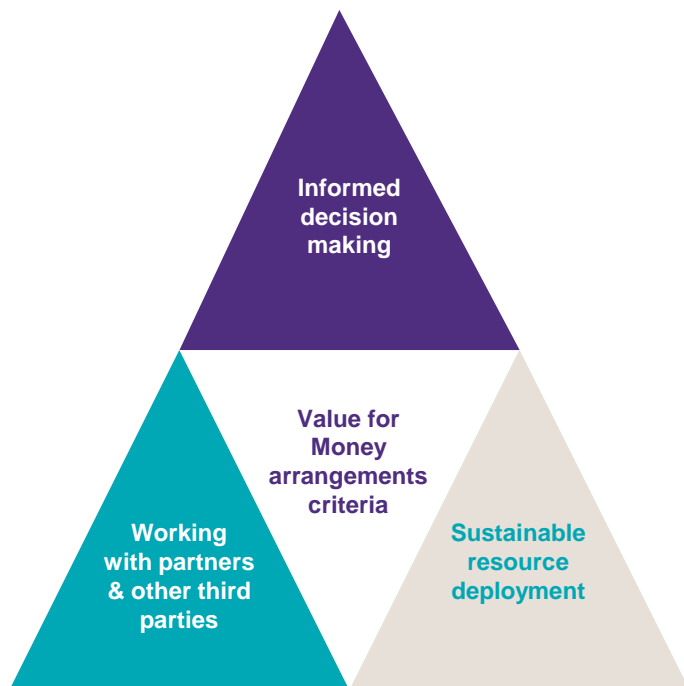
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in May 2020 and identified one significant risk in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan presented to Audit Committee on 31 July 2020.

We have:

- updated our VFM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VFM risks in relation to the Covid-19 pandemic.
- continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.
- carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness. We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- The Council's outturn as at 31 March 2020
- The Council's financial strategy updates as a result of COVID-19

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 20 to 22.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendations for improvement. Our recommendations and management's response to these can be found in the Action Plan at Appendix A

Overall conclusion

Based on the work we performed to address the significant risk, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Value for Money

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk

Financial sustainability

In common with the Local Government sector as a whole, the Authority is under increasing funding pressure and, as a result, is facing a challenging savings target. This is further complicated by the issues arising as a result of the Covid-19 pandemic.

We will continue to meet with senior management to consider how the financial pressures are being managed on an ongoing basis. We will also discuss working arrangements during the Covid-19 pandemic, with a particular focus on the following;

- the reprofiling of planned expenditure to meet changing demands;
 - oversight of additional funding provided both to the Authority and on an agency basis;
 - and governance and data security arrangements during a period of widespread remote working.
-

Findings

Outturn position 2019/20

Historically, the Council has delivered against its financial objectives, this continued to be the case for 2019/20 with a £1.682m controllable overspend on the General Fund (GF) budget and a £4.106m underspend on the Housing Revenue Account Budget.

Within the £1.692m General fund overspend were significant pressures relating to Children's Services (£6.668m overspend) and Place (£6.256m overspend). These overspends were offset largely by the Corporate budget underspend of £11.352m which was mainly non recurrent savings totalling £7.456m including the release of a contingency built up from MRP savings, unused s31 grant and early payment of pension contributions.

In his report to Cabinet on 6 July 2020 the S151 officer identified that 'the availability of Corporate funds to address any future issues arising is now extremely limited.'

In delivering the £1.682m controllable overspend the Council delivered £11.955m of its planned £18.490m savings target. £6.535m savings proposals were rated as red risks, the largest being £3.621m for the Place directorate. The Quarter 1 monitoring report for 2020/21 outlines ongoing pressures in all service areas and this includes unachieved savings from 2019/20. The total red risk remaining for place at the end of Quarter 1 was £1.972m reflecting the fact that the Council anticipated that some of the undelivered savings for 2019/20 were due to slippage in timing. The delivery of the remaining £1.972m of red risk savings are impacted by the COVID-19 pandemic.

Recommendation – The availability of non recurrent measures to balance annual budgets is now very limited and the continued reliance on one-off funding is unsustainable. The Council will need to deliver identified savings and develop further schemes to support the financial position going forward.

Capital programme

The Council has seen slippage in its capital programme of £127.209m. This is largely due to delays in delivering agreed programmed works and projects commencing late. The budget to be carried forward to 2020/21 for these specific planned works total £24.716m on the Housing Investment Programme.

Value for Money (continued)

Findings (continued)

Updated financial strategy – Covid 19

In light of Covid-19 we have carried out a review of the updated financial information being produced by the Council. Covid-19 has had a significant impact on all sectors. In particular local authorities have faced challenges in relation to lost income, examples include parking and leisure income. In July 2020 the S151 officer presented an updated Financial Strategy Report for 2020/21 and 2021/22. At that point only limited information was available, however it was apparent that the Financial Strategy approved by Council in February 2020 was outdated even before the financial year had begun. The focus of the July 2020 update was to consider the impact on the short to medium term financial strategy for the 2020/21 and 2021/22 financial years.

A summary is included below to illustrate the Funding Gap reported in the February 2020 MTFP compared to the update in July 2020. Key points are as follows:

- The February 2020 MTFP presented a balanced budget for the 2020/21 financial year. Due to the Covid19 pandemic cost pressures and lost income are estimated to create a budget gap of £36m for 2020/21. At the time of the July 2020 update report an £18m contribution had been received from central government which left a budget gap of £18.503m for 2020/21. As reported in the 7 September 2020 report to Cabinet the Council has now received a £20.350m non-ringfenced grant from MHCLG to enable it to respond to Covid-19 pressures across all services. In addition to this, the Council may be able to claim up to £5.447m additional un-ringfenced support from MHCLG to recompense the Council for a proportion of lost sales, fees and charges income that has not been received due to the pandemic. Furthermore, The Government have enabled local authorities to write off Collection Fund deficits over a three year period. This reduces the impact of losses in Council Tax and Business Rates in future years and removes any financial implication from the current year.
- The £36m additional Covid-19 pressure comprises of additional costs of £11.561m, loss of income of £15.371m, anticipated non-delivery of savings of £3.598 and potential non-collection of Council tax and business rates of £5.180m. In the Quarter 1 Revenue Monitor the net implication of Covid-19 on the Council (after taking account of unachievable or delayed savings, loss of sales, fees and charges, additional expenditure and emergency spending, all offset by government grants and flexibilities) is £0.199m
- The funding gap for 2021/22 as per the February 2020 MTFP was anticipated to be £37m. This has reduces to £33.3m mainly due to the carry forward of core government grants which have not been assumed to reduce significantly in 2021/22. As a result of this, these one off grants have been used to close the funding gap in 2021/22. The Council is planning to drawdown part of the Financial Strategy Reserve in 2021/22, and then use the balance of this in 2022/23 to reduce the potential funding gap arising in the year of the Fair Funding Review.

Per the 2019/20 financial statements the Council is reporting general fund reserves of £13.510m along with £67.993m earmarked reserves giving a total level of General fund reserves of £81.503m. With this level of reserves we are satisfied that the Council would be able to cover its Funding Gap for 2020/2021 and 20/21/2022 however, it should be noted that reserves can only be used once and the development of recurrent savings plans should be a priority for the Council.

Financial year	February 2020 MTFP			MTFP update - July 2020		
	Funding Gap	One off grants and use of reserves	Remaining Gap/savings plans to be funded	Funding Gap	One off grants and use of reserves	Remaining Gap/savings plans to be funded
	000's	000's	000's	000's	000's	000's
2020/2021	30,064	-30,064	0	48,567	-30,064	18,503
2021/2022	37,046	-18,645	18,401	33,310	-33,310	0
2022/2023	41,581	2,773	44,354	39,630	-8,021	31,609
2023/2024	50,022	5,000	55,022	48,734	5,000	53,734
2024/2025	56,914	5,000	61,914	58,017	5,000	63,017

Value for Money (continued)

Conclusion

It is clear that the Council has responded positively to the challenge presented by Covid-19 and are adequately monitoring and assessing the current and future impacts on the Council's finances.

The financial year 2022/2023 will see perhaps the peak of the challenge. The Council's current MTFP shows a budget gap of £31.609m in setting a balanced budget for 2022/23. The Council is also likely to see further impact of the pandemic. It is therefore business critical that officers and members take immediate action to reduce this gap

Based on the work completed we have concluded that the Council has adequate arrangements in place to deliver financial sustainability.

Management response

A complete review of existing savings, taking into account the impact of the pandemic, is currently being undertaken. An overarching strategy for the authority is emerging and a revised Corporate Plan (or equivalent) and Financial Strategy will reflect this approach. The Council's response to the current and coming Financial Year will be based upon managing the immediate consequences of the pandemic, reacting to new opportunities and managing within the funding envelope set out within the short to medium term Spending Review, the 2021/22 settlement and any other emergency (Covid-19) grants. The longer term strategy will emerge in parallel with this approach, over the coming twelve months. It is essential that details of government funding over the medium term emerge over the same time period.

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. 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 D



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 15th October 2020, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.




Service	£	Threats	Safeguards
Audit related			
Certification of Housing Benefit Grant Claim	£13,300	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services)	The level of this recurring fee taken on its own is not considered a significant threat to independence in comparison to the total fee for the audit of £126,561 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.
Certification of Teacher's Pension return	£4,800	See above	See above
Certification of Housing capital receipts grant	£3,000	See above	See above
Non Audit related			
CFO Insights licence	£10,000	See above	See above

Action plan



We have identified 4 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 2020/21 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
 High	Delivery of savings plans The availability of non recurrent measures to balance annual budgets is diminishing and the long term reliance on reserves and one-off funding is unsustainable. The Council will need to deliver identified savings schemes and also identify and develop further schemes to support the councils financial position going forward.	The savings plans identified need to be progressed as a matter of urgency along with the agreement of further projects and initiatives to close the budget gap. Management response A complete review of existing savings, taking into account the impact of the pandemic, is currently being undertaken. A number of unachieved savings will be met from un-ringfenced Covid-19 Grant in the short-term and expect to be delivered over the medium term. In addition to the pressures created by the pandemic, a number of opportunities around new ways of working are also emerging. The Council is undertaking a comprehensive review of its asset estate, with a view to significant rationalisation through new working practices. An overarching strategy for the authority is emerging and a revised Corporate Plan (or equivalent) and Financial Strategy will reflect this approach. The Council's response to the current and coming Financial Year will be based upon managing the immediate consequences of the pandemic, reacting to new opportunities and managing within the funding envelope set out within the short to medium term Spending Review, the 21/22 settlement and any other emergency (Covid-19) grants. The longer term strategy will emerge in parallel with this approach, over the coming twelve months.
 Medium	Payroll Full Time Equivalent reports The Council have been unable to run retrospective FTE reports for the purposes of audit testing. These reports were not run at the time.	Payroll FTE reports should form part of the standard suite of reports which are generated and saved on a monthly basis (or relevant interval) Management response FTE reports have been run monthly since January 2020




Controls

-  High – Significant effect on control system
-  Medium – Effect on control system
-  Low – Best practice

Action plan (continued)

Assessment	Issue and risk	Recommendations
 Medium	<p>Financial statement quality assurance procedures</p> <p>Due to a mapping/formula issue a number of material values were misstated within the Housing Revenue Account Balance Sheet. Overall this has no impact on the values disclosed within the primary statements, this is presentational only.</p>	<p>As part of the year end procedures the Council should build in a final quality control review of the financial statements in order to identify mapping issues.</p> <p>Management response</p> <p>Due to a timing difference between the production of the HRA notes and the main notes a difference arose. Figures are cross checked between Financial Statements and the Notes, this will be developed further in 2020/21 to ensure all areas are picked up.</p>
 Low	<p>Audit fees per the draft financial statements do not agree to the final agreed audit fees charged in the financial year.</p>	<p>Audit fees should be reconciled to the issued Audit Plan for the financial year. This includes agreed fee variations where appropriate.</p> <p>Management response</p> <p>Audit fees included in the accounts will be checked back to the approved Audit Plan.</p>

Controls

-  High – Significant effect on control system
-  Medium – Effect on control system
-  Low – Best practice

Follow up of prior year recommendations

We identified the following issues in the audit of Shropshire Council's 2018/19 financial statements, which resulted in 1 recommendation being reported in our 2018/19 Audit Findings report. Progress against the recommendation made is summarised below.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p>Value for Money Conclusion</p> <p>The Council will need to monitor decisions from the Government about its future funding and respond accordingly. As well as responding to any Government decisions it also needs to ensure that it makes appropriate decisions about Council Tax increases and ensures that income generation schemes and savings plans are delivered in full.</p> <p>2018/19 response</p> <p>Discussions with Members, local MPs and Government are on-going in relation to Government funding levels, short-term grants and the implications of Fair Funding and Business Rates Retention. Maximum Council Tax increases are already factored in and discussions with Members about the implications of higher increases on-going. All savings plans are being reviewed and highlight reports put in place to monitor activity as well as financial implications.</p>	<p>Management response 2019/2020</p> <p>With the Government decision to delay the Fair Funding Review and other associated initiatives (such as revaluation and Business Rates Retention) it is not possible to provide any meaningful update on last year's response.</p> <p>Discussion and meetings with local MPs and Cabinet Ministers to highlight the Council's financial position and the necessity for change have continued over the current financial year, but will not deliver any meaningful result until the pandemic is brought into a managed position.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

Audit adjustments

Misclassification and disclosure changes

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 omission/change	Detail	Auditor recommendations	Adjusted?
Note 38 – Dedicated Schools Grant	The Council had a cumulative overspend of £2.247m as 31 March 2020 due to insufficient government funding. We have reviewed the statement from CIPFA which confirms the guidance in LAAP bulletin 99 Local Authority Reserves and Balances remains extant i.e.. it “neither anticipates nor allows for a voluntary earmarked balance to be presented in a deficit position.”	Financial statements note 38 reports a net nil position at the year end for Dedicated Schools Grant (DSG). This should however show a net deficit of £2.247m. In order to clarify we would expect the following : <ul style="list-style-type: none"> • Restate note 38 to make clear that there is a deficit being carried forward to 20/21 • Add narrative to explain that the deficit arising on the DSG has been agreed as a carried forward against school balances (earmarked reserves) and will be applied against the 20/21 grant next year.” 	Yes
Note 4 - Assumptions made about the future and other major sources of estimation uncertainty.’	The Council have disclosed the estimation uncertainty related to the year-end valuations of land and buildings in note 4 to the financial statements ‘Assumptions made about the future and other major sources of estimation uncertainty.’ The disclosure within note 4 includes: <ul style="list-style-type: none"> • A background to the circumstances and reason for the disclosure ▪ An explicit statement that the valuer has included a material valuation uncertainty regarding asset valuations <p>The disclosure does not include a sensitivity analysis.</p>	Sensitivity analysis to be included to provide illustrative example to the users of the financial statements.	Yes
Housing Revenue Account	Accounts mapping Due to a mapping issue a number of material values were included in the wrong heading within The Housing Revenue Account. Overall this has no impact on the values disclosed within the financial statements, this is presentation only	Accounts are amended and going forward as part of the year end procedures the council should build in a final quality control review in order to identify mapping issues.	Yes

Audit adjustments

Misclassification and disclosure changes (continued)

Disclosure omission/change	Detail	Auditor recommendations	Adjusted?
IFRS 16 implementation has been delayed by one year	Although the implementation of IFRS 16 has been delayed to 1 April 2021, audited bodies still need to include disclosure in their 2019/2020 statements to comply with the requirement of IAS 8 para 31.	As a minimum, we would expect disclosures of the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases	Yes
Minor amendments	<ul style="list-style-type: none"> • Various 	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.	Yes

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 Scale Fee	£103,061	£103,061
PSAA approved variation	£23,500	£23,500
Remote working has taken additional time to explain the audit trail of transactions through remote working rather than discussing processes and procedures in person. We estimate this has extended the audit process by 2 - 3 weeks plus additional review procedures by the Audit Manager and Engagement lead	-	TBC
Total audit fees (excluding VAT)	£126,561	TBC

Non-audit fees for other services	Proposed fee	Final fee
Certification of Housing Benefit Grant Claim (2018/2019 billed 2019/2020)	£13,300	£13,300
Certification of Teacher's Pension Return (2018/2019 billed 2019/2020)	£4,800	£4,800
Certification of Housing capital receipts grant (2018/2019 billed 2019/2020)	£3,000	£3,000
Total non- audit fees (excluding VAT)	£21,100	£21,100

The fees reconcile to the financial statements per note 37 'External Audit Costs' as follows:

- fees per financial statements £136k
- Under-accrual of audit fee £12k
- total fees per above (£21k +£127k) £148k



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