Grant Thornton

Shropshire Council audit plan

Year ending 31 March 2021

Shropshire Council

July 2021

Contents

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Key matters

Factors

Council developments and impact of COVID 19 pandemic

The Council continues to operate in an uncertain and challenging environment due to the global pandemic, balancing service delivery against the impact of the citizens of Shropshire, Council staff and their families. Covid has had, and will continue to have significant financial impact on the Council. It was recognised by the Council that the direct financial impact on 2019-20 was limited: the Trusts valuer reported a material uncertainty in regards to the valuation of properties as at 31 March 2020due to the Covid 19 pandemic.

For several years the Council has been reported significant medium-term financial challenges and this has been exacerbated by the pandemic: the Council suffered loss of operational income, and has had to deal with the allocation, distribution and provision of emergency loans and grants at relatively short notice, while continuing to provide 'business as usual' services such as social care and education.

The Council's finance team, management and governing body colleagues have adapted well to remote working arrangements. Processes and controls have been adapted where required to ensure that base level day to day financial management of the Council's finances is maintained. Internal Audit continue to deliver their program, ensuring that assurance is provided to the governance function.

Financial Reporting and Audit.

The Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, and to undertake more robust testing. There is a particular focus on estimates in 2020/21 with the introduction of ISA 540 (revised) (se pages 11 and 12 for further detail) and the Council should anticipate greater challenge and audit scrutiny in these areas.

Accounting for Government Grants

The Government has provided a range of financial support packages throughout the COVID-19 pandemic. These include additional funding to support the cost of services or offset other income losses and also grant packages to be paid out to support local businesses. There is nothing new about the accounting treatment for grants, but the Council needs to consider the nature and terms of the various COVID-19 measures in order to determine whether there is income and expenditure to be recognised in the Comprehensive Income and Expenditure Statement [CIES] in 2020/21. There are three main considerations:

- Where the funding is to be transferred to other parties, is the Council acting as the principal or as the agent?
- Are there grant conditions outstanding?
- Is the grant a specific or non-specific grant?

We hove shared our publication on grant funding considerations with the Council and discussed it with the finance team who are considering the above factors in their rationale and justification for the accounting treatment to be proposed. It is an evolving area that we will need to react to as the audit progresses.

Our response

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set further in our Audit Plan, is currently under discussion with management and our regulators and will be confirmed at a later date.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in completing our Value for Money work.
- We will continue to provide you with sector updates via our Audit Committee updates.
- We have identified an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to increasing financial pressures. We have identified a significant risk in regards to management override of controls (see page 7).
- The Council's valuer reported a material uncertainty in regards to the valuation of properties in 2019/20 due to the Covid 19 pandemic. Whilst we anticipate markets will have returned to a degree of normality significant uncertainty will continue in 2020/21. We identified a significant risk in regards to the valuation of properties – refer to page 7.
- The Council's pension fund net liability, as reflected in the balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements due to the size of the numbers involved (£495 million in the balance sheets and the sensitivity of the estimate to changes in key assumptions. We identified a significant risk in regards to the valuation of the pension fund net liability — refer to page 8.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Shropshire Council ('the Council') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Shropshire Council. *We draw* your attention to both of these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- Council's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit Committee); and
- Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Council's business and is risk based.

Group Audit

The Council is required to prepare group financial statements that consolidate the financial information of those subsidiaries it considers material. Consideration of Group components can be seen on page 5 .

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management override of controls
- Valuation of land and buildings
- Valuation of net pension fund liability

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £8.7m (PY £8.7m) for the Group and £8.6m (PY £8.6m) for the for the Council, which equates to approximately 1.4% of your prior year gross expenditure. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £435k (PY £435k).

Value for Money arrangements

Our initial risk assessment regarding your arrangements to secure value for money have identified the following risks of significant weakness:

- Financial resilience
- Highway's contract governance arrangements

Any changes to our risk assessment will be reported to the Committee along with our response and findings.

Audit logistics

Our interim visit took place in March and April 2021 and our final visit will take place in August and September 2021. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report. Our audit approach is detailed in Appendix A.

The proposed fee for 2020/21 is £185,996 . For reference, our prior period final fee was £148,830 which is subject to approval from PSAA. We have set out details on how the fee has been calculated on page 19 and 20 of the plan.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Individually Significant?	Audit Scope	Risks identified	Planned audit approach
Shropshire Council	Yes		See section 4 of this report	Full scope UK statutory audit performed by Grant Thornton UK LLP
Shropshire Towns and Rural (STaR) Housing Ltd	No		None	Analytical review performed by Grant Thornton UK LLP.
West Mercia Energy	No		None	Analytical review performed by Grant Thornton UK LLP.
Cornovii Developments Limited	No		None	Analytical review performed by Grant Thornton UK LLP.
IP &E Limited	No		None	Analytical review performed by Grant Thornton UK LLP.
West Mercia Energy (Pension)	No		None	Analytical review performed by Grant Thornton UK LLP.
SSC No 1 Limited	No		None	Analytical review performed by Grant Thornton UK LLP.

Key changes within the group:

We are not aware of any significant changes during 2020/21. We will however report changes should any be identified.

Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component’s financial information
- Specified audit procedures relating to significant risks of material misstatement of the group financial statements
- Analytical procedures at group level

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions (rebutted) (Risk relates to Group and Authority)	Under ISA (UK) 2k0 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Shropshire Council and its subsidiaries mean that all forms of fraud are seen as unacceptable. Whilst not a presumed significant risk, we have had regard to Practice Note 10, which comments that for certain public bodies, the risk of manipulating expenditure may well be greater than that of income. Because of this we have also considered and rebutted the risk of improper recognition of operating expenditure	Notwithstanding that we have rebutted this risk, we will still undertake a significant level of work on the Council's revenue streams, as they are material. We will: Accounting policies and systems • evaluate the Council's accounting policies for recognition of income and expenditure for its various income streams and compliance with the CIPFA Code • update our understanding of the Council's business processes associated with accounting for income <u>Fees, charges and other service income</u> • Agree, on a sample basis, income and gear end receivables from other income to invoices and cash payment or other supporting evidence. <u>Taxation and non-specific grant income</u> • Income for national non-domestic rates and council tax is predicable and therefore we will conduct substantive analytical procedures • For other grants we will sample test items back to supporting information and subsequent receipt, considering accounting treatment where appropriate. We will also design tests to address the risk that income has been understated, by not being recognised in the current financial Sea r. <u>Expenditure</u> • update our understanding of the Council's business processes associated with accounting for expenditure • agree, on a sample basis, expenditure and gear end creditors to invoices and cash payment or other supporting evidence We will also design tests to address the risk that expenditure has been overstated, by not being recognised in the current financial gear (see page 9).

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls (Risk relates to Group and Authority)	Under ISA (UK) 240, there is a non-rebuttable presumed risk that management override of controls is present in all entities. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk of material misstatement.	We will: • Evaluate the design effectiveness of management controls over journals; • Analyse the journals listing and determine the criteria for selecting high risk unusual journals; • Test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • Gain an understanding of the accounting estimates and critical judgements applied by management and consider their reasonableness with regard to corroborative evidence; and • Evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.
Valuation of land and buildings (PPE) (Risk relates to Group and Authority)	The Council revalues its land and buildings on a five-yearly basis. Assets were subject to a full or Desktop valuation in 2019/20. In the intervening years, to ensure the carrying value in the Authority financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, the Authority carries out a desktop revaluation/requests a desktop valuation from its valuation expert to ensure that there is no material difference. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£555m relating to Other land and Buildings and £200m relating to Council Dwellings) and the sensitivity of this estimate to changes in key assumptions. We 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.	We will: • Evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • Evaluate the competence, capabilities and objectivity of the valuation expert; • Write to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the CIPFA code are met; • Challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • Test revaluations made during the year to see if they had been input correctly into the Council's balance sheet

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability (Risk relates to Group and Authority)	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. The pension fund liability is considered a significant estimate due to the size of the numbers involved (£495m as at 31 March 2020) and the sensitivity of the estimate to changes in key assumptions. 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 misstatements.	We will: • Update our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • Evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • Assess the competence, capabilities and objectivity of the actuary who carried our the Council's pension fund valuation; • Assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • Test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • Undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • Obtain assurances from the auditor of Shropshire Pension Fund as to the controls surrounding the validity and accuracy of membership data, contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

Other risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Operating expenses (Council only)	Non-pay expenses on other goods and services also represents a significant percentage of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs. We therefore identified completeness of non-pay expenses as a risk requiring particular audit attention. We are also applying specific focus to the occurrence of expenditure and existence of payables, to mitigate the risk that expenditure has been overstated to take advantage of the additional funding which has been available to the Council during the 2020/21 financial year as a result of the pandemic.	We will: • evaluate the Council's accounting policies for recognition of non-pay expenditure streams for appropriateness • gain an understanding of the Council's system for accounting for non-pay expenditure • apply elevated risk procedures and test a sample of balances included within trade and other payables • test a sample of payments immediately prior to and after the year end to ensure that appropriate cut-off has been applied, and therefore that the expenditure has been recognised in the correct period. • apply elevated risk procedures and test a sample of expenditure to ensure it has been recorded accurately and is recognised in the appropriate financial accounting period.
JPUT	In 2017 the Council purchased the 3 Shrewsbury shopping centres which were held as assets offshore as Jersey Property Unity Trusts (JPUTs) . The Council returned the shopping centres onshore as in February 2021 as this was determined by the Council to be the time when the transition would be most timely and efficient.	We will review the Council's proposed accounting treatment of 'on-shoring' the shopping centres.

Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

Introduction

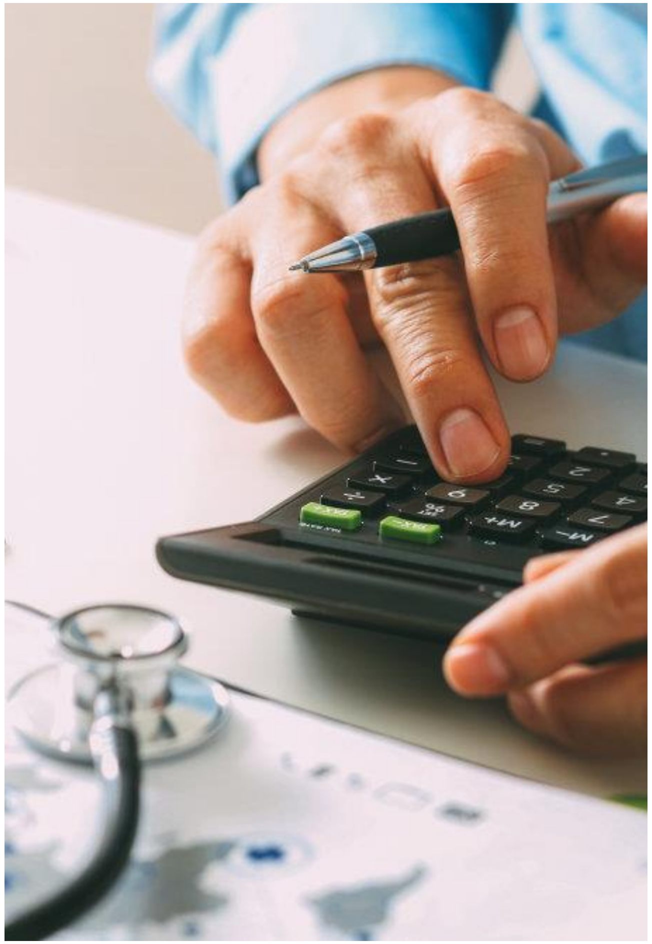
Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?



Accounting estimates and related disclosures

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings
- Valuation of Investment property
- Estimated Remaining Useful Lives of PPE
- Depreciation
- Significant accruals
- Valuation of defined benefit net pension fund liabilities
- Fair value estimates
- Impairment of receivables – Collection fund receivables
- NDR appeal provisions

The Council's Information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Council (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.

Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- **What the assumptions and uncertainties are;**
- **How sensitive the assets and liabilities are to those assumptions, and why;**
- **The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and**
- **An explanation of any changes made to past assumptions if the uncertainly is unresolved.**

Planning enquiries

As part of our planning risk assessment procedures we have made enquiries of management via our Informing the Risk Assessment report which we use as a vehicle for updating our understanding of the Council's controls framework. We will present this as a separate report and ask that the Committee review and approve the report to ensure we have a consistent understanding of the Council's arrangements.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your 2020/21 financial statements, consider and decide upon any objections received in relation to the 2020/21 financial statements;
  - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
  - issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important and mark a significant departure from how this concept has been audited in the public sector in the past. In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. Applying such an approach should enable us to increase our focus on wider financial resilience (as part of our VfM work) and ensure that our work on going concern is proportionate for public sector bodies. We will review the Council's arrangements for securing financial sustainability as part of our Value for Money work and provide a commentary on this in our Auditor's Annual Report (see page 15).

We will also need to identify whether and material uncertainties in respect of going concern have been reported for the Council's subsidiaries. If such a situation arises, we will consider our audit response for the group.

Materiality

The concept of materiality

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. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is as follows:

- Council - £8,600k (PY £8,600k), which equates to approximately 1.4% of your prior period gross expenditure.
- Group £8,700k (PY £8,700k), which equates to approximately 1.4% of your prior period gross expenditure.

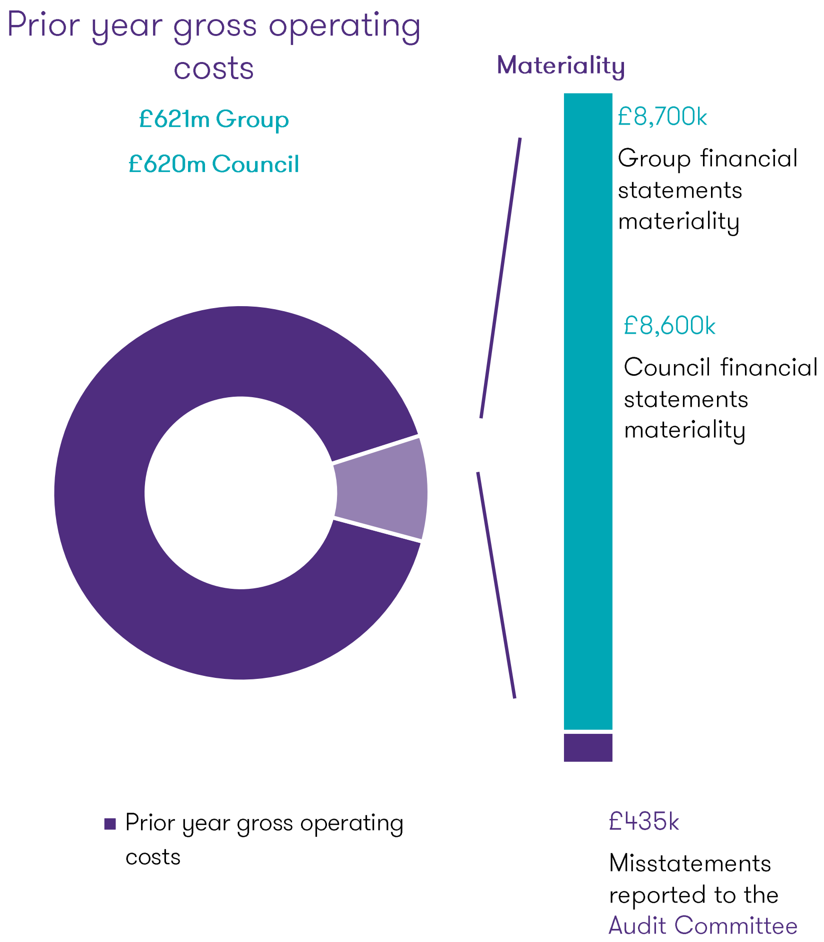
We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £100k for senior officer remuneration owing to the sensitive nature of these disclosures. This lower level of materiality relates to bit the Authority and Group.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £430k (PY £430k), £435k for the group (PY £435k)

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.



Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary qualified / unqualified approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria. These are as set out below:

Improving economy, efficiency and effectiveness

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

Financial Sustainability

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

Governance

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

Risks of significant VFM weaknesses

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

Risks of significant weakness

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

Financial sustainability

The Authority has historically managed its finances well, however for several years the Council has been reporting significant medium-term financial challenges and this has been exacerbated by the pandemic.

The Council has suffered loss of operational income, and has had to deal with the allocation, distribution and provision of emergency loans and grants at sometimes relatively short notice, while continuing to provide "business as usual" services such as social care and education.

As reported to Cabinet in February 2021 the e Council's Financial Strategy sets out its plans for 2021/22 through to 2025/26. This includes over £9m of savings proposals across all areas of the Council. Many of these savings, however, are a continuation of plans stalled in 2020 due to the Covid-19 outbreak. With an allocation from the Financial Strategy Reserve the Council has produced a balanced budget for 2021/22.

The Council will need to maintain focus on delivering its budget, and be agile in the face of any continuing impacts of the pandemic.

We will review the Council's Medium Term Financial Strategy and financial monitoring reports and assess the key assumptions being used and savings being achieved..

Highways contract governance

On the 1st of April 2018, following a competitive tender process the council entered into a seven year contract with Kier to deliver highways and street scene services across Shropshire. The annual contract value is circa £27m. The Council recognises that this is above the £21m per annum when the contract was originally advertised. We are also aware that the Council has reported on the challenges that have impacted the contract, (particularly in the first 2 years of the contract), and the progress made on improvements. The Council has identified one of its priorities was to put in place a governance framework that manages the contract and provides oversight.

We will review the governance structure in place at the Council and reporting outcomes of this structure.

Potential types of recommendations

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

Statutory recommendation

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

Key recommendation

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

Improvement recommendation

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

Audit logistics and team

Planning and risk assessment

Interim audit March 2021

Audit Committee March 2021

Interim Progress Report

Year end audit August-September 2021

Audit Committee TBC (est Sept 2021)

Audit Findings Report and Audit Opinion

Audit Committee TBC (est Nov 2021)

Auditor's Annual Report

Grant Patterson, Key Audit Partner

Grant leads our relationship with you and takes overall responsibility for the delivery of a high quality audit, ensuring the highest professional standards are maintained with a commitment to add value to the Council.

Mary Wren, Audit Manager

As the engagement manager, Mary is responsible for overseeing delivery of our service and managing the audit process in respect of the Council. She will be in hand to answer any queries, whilst ensuring an efficient audit process.

William Howard, In Charge Accountant

William will work with relevant officers and our operational team to ensure the smooth planning and delivery of the audits. He will oversee the day to day running of the audit and discuss any issues with you during the audit process as well as any questions you may have throughout the year.

Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the agreed timetable you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

Audit fees

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In 2018, PSAA awarded a contract of audit for Shropshire Council to begin with effect from 2018/19. The fee agreed in the contract (scale fee)was £103,061. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2020/21 audit.

As referred to on page 15, the 2020/21 Code introduces a revised approach to our VFM work. This requires auditors to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach. Auditors now have to make far more sophisticated judgements on performance, as well as issue key recommendations if any significant weaknesses in arrangements are identified during the audit. We will be working with the NAO and other audit firms to discuss and share learning in respect of common issues arising across the sector.

The new approach will be more challenging for audited bodies, involving discussions at a wider and more strategic level. Both the reporting, and the planning and risk assessment which underpins it, will require more audit time, delivered through a richer skill mix than in previous years. Our estimate is that for your audit, this will result in an increase to the scale fee of £26,000 (25%). This is in line with increases we are proposing at all our local audits.

MHCLG have increased the funding of local government audit by £15 million to reflect the pressures on local audit and the additional work that is needed to deliver the additional audit duties set out in the National Audit Office's Code of Practice. This equates to a 60 per cent increase in funding for local audit. Our estimate is that for your audit, the additional work result in an increased fee of £167,061 (62% on scale fee). This is in line with increases we are proposing at all our local audits.

Additionally, across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as noted in the number of revised ISA's issued by the FRC that are applicable to audits of financial statements commencing on or after 15 December 2019, as detailed in Appendix 1..

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. We have engaged an audit expert to improve the level of assurance we require for property valuations estimates, which has been included in our proposed audit fee. Our proposed work and out fee for 2020/21, as set out below, is detailed overleaf.

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	Actual Fee 2018/19	Actual Fee 2019/20	Proposed fee 2020/21
Shropshire Council Audit	£115,061	£148,830	£167,061
Audit of subsidiary company - Shropshire Towns and Rural (STaR) Housing Ltd	£16,250	£16,500	TBC

Assumptions

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

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard (revised 2019) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Audit fees – detailed analysis

Scale fee published by PSAA		£103,061
Ongoing increases to scale fee first identified in 2019/20		
Raising the bar/regulatory factors including materiality change	£5,000	
Enhanced audit procedures for Property, Plant and Equipment	£4,500	
Property, Plant and Equipment: appointment of auditor's expert	£5,000	
Enhanced audit procedures for Pensions	£3,500	
Other complex issues and expert advice	£3,000	
Recurring element of 2019/20 fee		£21,000
New issues for 2020/21		
Additional work on Value for Money (VfM) under new NAO Code	£26,000	£26,000
Increased audit requirements of revised ISAs	£17,000	£17,000
Proposed increase to agreed recurring 2019/20 fee		£43,000
Total audit fees (excluding VAT)		£167,061

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

Other services

The following other services provided by Grant Thornton were identified. The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

* Note that all fees noted are those charged in respect of 2019-20 as the equivalent fees for 2020-21 are yet to be determined.

None of the services provided are subject to contingent fees.

Service	Fees £	Threats	Safeguards
Audit related			
Certification of Housing capital receipts grant	£3,000*	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £3,000 in comparison to the total fee for the audit of £167,061 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.
Certification of Housing Benefits Subsidy Claim	£13,300*	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £13,300 in comparison to the total fee for the audit of £167,061 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.
Certification of Teachers Pension return	£4,800*	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £4,800 in comparison to the total fee for the audit of £167,061 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.
Total	£21,100		

Appendix 1: Revised Auditor Standards and application guidance

FRC revisions to Auditor Standards and associated application guidance

The following Auditing Standards and associated application guidance that were applicable to 19/20 audits, have been revised or updated by the FRC, with additional requirements for auditors for implementation in 2020/21 audits and beyond.

	Date of revision	Application to 2020/21 Audits
ISQC (UK) 1 – Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Service Engagements	November 2019	✓
ISA (UK) 200 – Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK)	January 2020	✓
ISA (UK) 220 – Quality Control for an Audit of Financial Statements	November 2019	✓
ISA (UK) 230 – Audit Documentation	January 2020	✓
ISA (UK) 240 – The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements	January 2020	✓
ISA (UK) 250 Section A – Consideration of Laws and Regulations in an Audit of Financial Statements	November 2019	✓
ISA (UK) 250 Section B – The Auditor's Statutory Right and Duty to Report to Regulators od Public Interest Entities and Regulators of Other Entities in the Financial Sector	November 2019	✓

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 260 – Communication With Those Charged With Governance	January 2020	✓
ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and Its Environment	July 2020	✓
ISA (UK) 500 – Audit Evidence	January 2020	✓
ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures	December 2018	✓
ISA (UK) 570 – Going Concern	September 2019	✓
ISA (UK) 580 – Written Representations	January 2020	✓
ISA (UK) 600 - Special considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)	November 2019	✓
ISA (UK) 620 – Using the Work of an Auditor's Expert	November 2019	✓
ISA (UK) 700 – Forming an Opinion and Reporting on Financial Statements	January 2020	✓

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 701 – Communicating Key Audit Matters in the Independent Auditor's Report	January 2020	✔
ISA (UK) 720 – The Auditor's Responsibilities Relating to Other Information	November 2019	✔
Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom	December 2020	✔

Grant Thornton

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