This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

Grant Thornton

The DRAFT Audit Findings for Shropshire Council

Year ended 31 March 2021

Shropshire Council

15th October 2021

Contents

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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. Its contents have been discussed with management and will be discussed with the Audit Committee.

Grant Patterson

Name : Grant Patterson
For Grant Thornton UK LLP

Date : 15 October 2021

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

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Shropshire Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2021 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Council's financial statements 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.

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.

Our audit work has been conducted remotely. Our findings are summarised on pages 5 to 26.

Our work is still in progress but from the work undertaken to date there are no matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements, subject to resolution of the outstanding matters listed on page six.

Audit adjustments are detailed in Appendix B. One adjustment has been identified to the financial statements in respect of the classification of grants received in advance. This does not result in an adjustment to the Council's Comprehensive Income and Expenditure Statement or impact upon the Council's general fund balance.

We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited.

We have also raised recommendations for management as a result of our audit work in Appendix A. We have made six recommendations for improvement in Appendix A :

- One recommendation in respect of the de minimis applied to those assets subject to revaluation, and
- Five recommendations linked to deficiencies identified by our IT audit team, none of which individually or cumulatively have a material impact upon the financial statements.

Our follow up of recommendations from the prior year's audit are detailed in Appendix C.

Our anticipated audit report opinion will be unmodified, but we will be unable to certify the audit closed until our work on the whole of government accounts is complete, we have issued our Annual Auditor's Report (covering our work on the Council's value for money arrangements) and considered objections received from local taxpayers.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix G to this report. We expect to issue our Auditor's Annual Report by 31 December 2021. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our planning work, we considered whether there were any potential risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified two potential risks in respect of financial sustainability and governance arrangements regarding the Kier Highways contract.

We have not identified any significant weaknesses from our work completed to date, however, we are yet to finalise procedures in these areas of our Value for Money work. Progress against these objectives are outlined in the Value for Money arrangements section of this report. We will note any significant findings or recommendations in our Auditor's Annual Report.

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

However, we have been contacted separately by 2 Shropshire taxpayers asking us to consider matters which they believe fall under the Local Audit and Accountability Act 2014. We are:

- liaising with them further to inform them of their statutory rights and the proper challenge procedures, and
- considering whether the information provided requires investigation under the Code of Audit Practice.

We will keep the Audit Committee abreast of this matter.

We expect to certify the completion of the audit upon the completion of the above and our work on the Council's Value For Money arrangements, which will be reported in our Annual Auditor's Report, as well as the completion of our work on the Whole of Government Accounts procedures.

Significant Matters

Management's assumptions and estimates

The revised auditing standard in relation to estimates has led to heightened scrutiny over the estimates in the accounts, particularly property and pension valuations.

For property valuations in particular, there has been significant enquiry and challenge with both sets of valuers over the inputs and assumptions applied, as discussed on pages 10, 15 and 16, Our work in this area is ongoing.

2. Financial Statements

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 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 in particular 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 in July 2021, though we have performed additional work in relation to findings made by the work of our IT specialists on the Council's IT general controls Please refer to page 14 and Appendix A for more detail.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion pending satisfactory conclusion of all outstanding matters.

Outstanding matters are listed overleaf and are as at the time of writing. We will update the Committee verbally of progress against these matters at the meeting on 22 October 2021.

Acknowledgements

The impact of the pandemic has meant that both your finance team and our audit team faced audit challenges again in respect of remote access working arrangements i.e. video calling, physical verification of assets, verifying the completeness and accuracy of information provided remotely produced by the Council, access to key data (which we would otherwise just view in person) etc.

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff, and look forward to working face to face again in future, when Covid restrictions allow and when new working arrangements are established and confirmed.

2. Financial Statements

Status of the audit: the outstanding matters as at the time of writing are set out below.

🔴

- Review of responses from the Council's external valuers and our consideration thereon (relates to PPE and Investment property valuations)
- Review of responses to technical review of the financial statement and our consideration thereof
- Review of outstanding evidence regarding JPUT transactions (consultancy report and direct completion statements)
- Final manager and engagement lead review of all of the above once completed

🟡

- Completion of our work on the Expenditure and Funding Analysis
- Completion of our work on journals. One journal out of a population of 47 requires further explanation/evidence.
- Review of Council's responses in relation to Financial Instruments and our consideration thereof
- Review of the Councils response to our queries regarding Officers Remuneration disclosures and our consideration thereof
- Review of the Councils response to our queries regarding the minimum revenue provision and our consideration thereof
- Review of the Councils response to our query regarding provisions and our consideration thereof
- Completion of review of PFI model by GT technical team and our consideration thereof
- Update our assessment of subsequent events up to the date of audit opinion being issued
- Receipt and review of 3rd party investment confirmations (2 outstanding)
- Receipt and review of evidence to support sample item within capital creditors
- Final manager and engagement lead review of the above once completed

🟢

- Receipt of the Council's WGA pack and completion of our procedures thereon
- Receipt and review of the updated financial statements
- Obtaining and reviewing the management letter of representation
- Updating our post balance sheet events review, to the date of signing the opinion
- Final manager and engagement lead review of the above once completed

Status

- 🔴 High potential to result in material adjustment or significant change to disclosures within the financial statements
- 🟡 Some potential to result in material adjustment or significant change to disclosures within the financial statements
- 🟢 Not considered likely to result in material adjustment or change to disclosures within the financial statements

2. Financial Statements

Our approach to materiality

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

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

We detail in the table below our determination of materiality for Shropshire Council.

	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 1.4% 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: • 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.

2. Financial Statements - Significant risks

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

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

Risks identified in our Audit Plan	Commentary
Management over-ride of controls (Risk relates to Group and Authority) 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.	We: • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness From the sample testing of journals undertaken we have found that they were appropriate, eligible and valid, and can be agreed to supporting evidence. Our approach to this work was informed by the findings made by IT audit specialists from their review of the Council's IT general controls. IT audit undertook a design and implementation review of the following applications, which were scoped into the review on the grounds that they impact the financial reporting of the Council: • ERP (Finance, HR and Payroll) • Altair (Pension Administration system) • Active Directory (domain controller authenticating and authorising users and assigning and enforcing security policies, eg password control Recommendations have been made in relation to the IT review – these can be found in Appendix B. **We still have outstanding queries in this area, and therefore there may be more findings to report to you when the work is complete.**

2. Financial Statements - Significant risks

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

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

Risks identified in our Audit Plan	Commentary
Risk of fraud in revenue recognition and expenditure (Risk relates to Group and Authority) Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted. 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	We: Accounting policies and systems • evaluated the Council's accounting policies for recognition of income and expenditure for its various income streams and compliance with the CIPFA Code • updated our understanding of the Council's business processes associated with accounting for income Fees, charges and other service income • agreed, on a sample basis, income and year end receivables from other income to invoices and cash payment or other supporting evidence Taxation and non-specific grant income • conducted substantive analytical procedures for predictable income streams such as national non-domestic rates and council tax • for other grants we sampled items back to supporting information, considering accounting treatment where appropriate • designed tests to address the risk that income has been understated, by not being recognised in the current financial year Expenditure • updated our understanding of the Council's business processes associated with accounting for expenditure • agreed, on a sample basis, expenditure and year end payables to invoices and cash payment or other supporting evidence • designed tests to address the risk that expenditure has been understated, by not being recognised in the current financial year Accounting for Covid grants There has been additional work required this year compared to what would ordinarily be the case due to the significant additional funding received during the year to assist the Council in responding to the pandemic. In note 39 to the financial statement the Council states that it has received £138.7m of Covid grants for which it is acting as an agent. It is important to determine whether the authority is acting as principal or agent as different accounting treatment follows. An authority acts as an agent when it is does not control goods or services before they transfer to the service recipient. In this instance, transactions are not included in an authority's financial statements. We reviewed the grants comprising the £138.7m and were satisfied based on our review, that it was appropriate for the relevant income and expenditure to not be recognised in the financial statements. Note 39 is where the covid grants, for which the Council has determined it is acting as principal, are disclosed. We have sampled these grants as part of our overall grants testing procedures and are satisfied with the treatment thereof, including: • whether the Council is acting as the principal or agent which would determine whether the authority recognises the grant at all • the completeness and accuracy of the underlying information used to determine whether there are conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income • consideration of the impact for grants received, whether the grant is specific or non specific grant (or whether it is a capital grant) – which impacts on where the grant is presented in the CIES, (ie as taxation and non-specific grant income, or as part of cost of services). **Our audit work has not identified any issues in respect of revenue recognition.**

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of land and buildings (including council dwellings) Revaluation of property, plant and equipment should be performed with sufficient regularity to ensure that carrying amounts are not materially different from those that would be determined at the end of the reporting period. The Council revalues its land and buildings on a five-yearly basis. Assets were subject to a full valuation in 2019/20. In the intervening years (of which 2020/21 is one), 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 requests a desktop valuation from its valuation experts 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: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the evaluation experts and the scope of their work • evaluated the competence, capabilities and objectivity of the valuation experts • wrote to the valuers to confirm the basis on which the valuations were carried out • engaged our own valuer to assess the instructions to the Council's valuer, the Council's valuer's report and the assumptions that underpin the valuation • tested, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Council's asset register • evaluated the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. From our work to date we have identified the following: Valuation of land and buildings • From our testing of depreciation calculations we have identified assets which had a Useful Economic Life (UEL) outside of the range disclosed within note 15 – Property, Plant and Equipment. We understand the reason for this is that the accounting policy is based on average useful lives. We recommend the Council review its accounting policy and update to ensure the accounting policy reflects the actual range of useful lives rather than an average. We are however satisfied that this does not have an impact on the values reported for depreciation within the financial statements. **We still have outstanding queries in this area, and therefore there may be more findings to report to you when the work is complete.** Valuation of Council Dwellings We have no matters to report from our work in this area.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of net pension fund liability (Risk relates to Group and Authority) The Authority'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 net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of Practice for Local Government Accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation. The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable. The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability.	We: • 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; • undertook 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. We identified no findings from our work in this regard.

2. Financial Statements – other risks

Risks identified in our Audit Plan	Commentary
Operating expenses (Authority 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 incorrectly recognised in order to seek to take advantage of the additional funding which has been available to the Council during the 2020/21 financial year.	We: • evaluated the Council's accounting policies for recognition of non-pay expenditure streams for appropriateness • gained an understanding of the Council's system for accounting for non-pay expenditure, including walking through the process to determine that it was operating as expected • applied elevated risk procedures to the completeness assertion and tested a sample of balances included within trade and other payables • tested a sample of payments immediately prior to and after the year end to ensure that appropriate cut-off has been applied, and therefore that the expenditure has been recognised in the correct period • tested a sample of expenditure to ensure it has been recorded accurately and is recognised in the appropriate financial accounting period. We have no matters to report from our work in this area.
JPUT (Risk relates to Group and Authority) 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 consider the accounting treatment of the JPUT transactions and consider whether there are any implications for our Value for Money review.	We have reviewed the Council's accounting treatment and disclosures in relation to the 'on-shoring' the shopping centres. **We still have outstanding queries in this area, and therefore there may be more findings to report to you when the work is complete.**

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

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

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

Component	Individually Significant?	Approach per Audit Plan	Findings
Shropshire Council	Yes	Full scope UK statutory audit performed by Grant Thornton UK LLP	See section 2 of this report
Shropshire Towns and Rural (STaR) Housing Ltd	No	Analytical review performed by Grant Thornton UK LLP.	No issues identified.
West Mercia Energy	No	Analytical review performed by Grant Thornton UK LLP.	No issues identified.
Cornovii Developments Limited	No	Analytical review performed by Grant Thornton UK LLP.	No issues identified.
IP &E Limited	No	Analytical review performed by Grant Thornton UK LLP.	No issues identified.
West Mercia Energy (Pension)	No	Analytical review performed by Grant Thornton UK LLP.	Our work in this area is ongoing
SSC No 1 Limited	No	Analytical review performed by Grant Thornton UK LLP.	No issues identified.

2. Financial Statements – new issues and risks

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 deficiencies identified during the year.

Issue	Commentary	Auditor view
IFRS 16 implementation • Although the implementation of IFRS 16 has been delayed to 1 April 2022, audited bodies may still like to include disclosure in their 2020/2021 statements.	The financial statements do not include any reference to IFRS 16.	While the implementation has been deferred, given the significance this new standard is likely to have on the financial statements when it is introduced, we have recommended that the disclosure be enhanced. This will include the relevant information including a discussion of the impact that initial application of the IFRS is expected to have on the entity's financial statements, or if that impact is not known or reasonably estimable, a statement to that effect.
IT Control deficiencies • To obtain an understanding of the information systems relevant to financial reporting, IT Audit specialists were deployed to complete a design and implementation review of IT general controls of the following applications: • ERP (Finance, HR and Payroll) • Altair (Pension Administration system) • Active Directory (domain controller authenticating and authorising users and assigning and enforcing security policies, eg password control	The following tasks were completed as part of this review: • IT General Controls Testing: Design, implementation assessment over controls for security management; technology acquisition development and maintenance; and technology infrastructure. • Performed high level walkthroughs, inspected supporting documentation and analysis of configurable controls in the above areas. • Documented the test results and provided evidence of the findings to Shropshire Council's IT function's management for remediation actions where necessary.	6 deficiencies have been identified as part of this review. A deficiency is an ineffective control/s which creates the risk of inconsequential misstatement within financial statements. The deficiencies identified do not impact on the planned financial audit approach however we deem them appropriate to bring to the attention of the Audit Committee as those charged with governance. We have raised five recommendations as a result which are included within Appendix B.

2. Financial Statements – key judgements and estimates

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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Buildings – Other - £380.9m	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 2021. The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at current value is revalued at least every five years but are subject to an annual desktop review. Assets revalued during 2020/21 totalled £380.9 million.	• We have engaged our own valuer to assist with our work and challenge in this area. • We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council. • There have been no changes to the valuation method this year. • We have considered the movements in the valuations of individual assets and their consistency with indices provided by Gerald Eve as our auditor's expert. We have considered the completeness and accuracy of the underlying information used to determine the estate, including reviewing and challenging the floor areas. **We received responses to our follow up queries regarding key assumptions from the valuer on 14th October. This is now being considered by the audit team and therefore there may be more findings to report to you when the work is complete.**	TBC

Assessment

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

2. Financial Statements – key judgements and estimates

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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Buildings – Council Housing - £204.7m	The Council owns 4,042 dwellings and is required to revalue these properties in accordance with MHCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council engaged the Valuation Office Agency (VOA) District Valuer to complete the valuation of these properties. The year end valuation of Council Housing was £204.7 million in the draft accounts, a net increase from the 2019/20 balance of £200 million.	The total housing stock was revalued as at 31 March 2021 • We have engaged our own valuer to assist with our work and challenge in this area. • We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council. • The housing stock has been divided using the external valuer's judgements and knowledge by applying the beacon methodology. This approach is consistent with the prior year albeit being provided by a different valuer. • We have considered the indices that the valuer has used in performing the valuation and are in the process of discussing the appropriateness of these with the Council and its valuer. • We have considered the completeness and accuracy of the underlying information used to determine the estimate. We have no matters to report from our work in this area.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Net pension liability – £532m	The Council's net pension liability at 31 March 2021 is £532m (PY £496m) [comprising the Shropshire County Council Local Government [and unfunded defined benefit pension scheme obligations]. The Council uses Mercers to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £200m net actuarial loss during 2020/21.	• We have no concerns over the competence, capabilities and objectivity of the actuary used by the Council. • We have used the work of PwC, as auditors expert, to assess the actuary and assumptions made by the actuary. See below for consideration of key assumptions in the Shropshire County Council Pension Fund valuation as it applies to Shropshire Council.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.10%	2.10% - 2.20%	(G)
Pension increase rate	2.80%	2.8%	(G)
Salary growth	3.95%	2.5%-4.2% scheme specific	(G)
Life expectancy – Males currently aged 45 / 65	45: 24.3 65: 23.0	22.5 - 24.7 20.0 – 23.2	(G)
Life expectancy – Females currently aged 45 / 65	45: 26.7 65: 25.1	25.9 -27.7 24.0 – 25.8	(G)

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision - £8.3m	The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance and the Council's policy for the calculation of MRP is set out in its annual budget setting report presented to Council. The year-end MRP charge was £8.3m, a net increase of £1.3m from 2019/20. The Council calculates MRP on capital expenditure using the Annuity basis., as allowed under the relevant guidance. For unsupported borrowing MRP is calculated based on an annuity basis over the expected life of the asset for which the borrowing was undertaken. Management consider this to be a prudent approach as it takes into account the materiality of each asset and it's remaining useful life. Where the Council has made capital loans to third parties financed from the Council's balances, the annual repayments of principal amounts are treated as capital receipts and set aside in the Capital Adjustment Account in place of a revenue MRP charge. This is not in accordance with the code. At the time of writing we are waiting for the Council to quantify the impact of this.	Benchmarking the Council's MRP as a percentage of its closing Capital Financing Requirement shows that in 2020/21 the Council's contribution represented 1.96%, a reduction from 2.1% in 2019/20. This is consistent with similar bodies nationally. We are assessing this estimate, considering: • whether the MRP has been calculated in line with the statutory guidance • whether the Council's policy on MRP complies with statutory guidance. • whether any changes to the authority's policy on MRP have been discussed and agreed with those charged with governance and have been approved by full council • the reasonableness of the increase in MRP charge **We still have outstanding queries in this area and therefore there may be more findings to report to you when the work is complete.**	TBC

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Provisions £12.6m At £4.8m NNDR appeals is the most significant element of the provisions balance.	The Council are responsible for repaying a proportion of successful rateable value appeals. The Council's calculation is based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates. The provision has decreased by £1.7m in 2020/21.	• The valuation method is consistent with prior year and consistency with sector norms. • We have no concerns in relation to the calculation of the provision. • The disclosure of the estimate in the financial statements is adequate. We have no matters to report from our work in this area.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Assessment

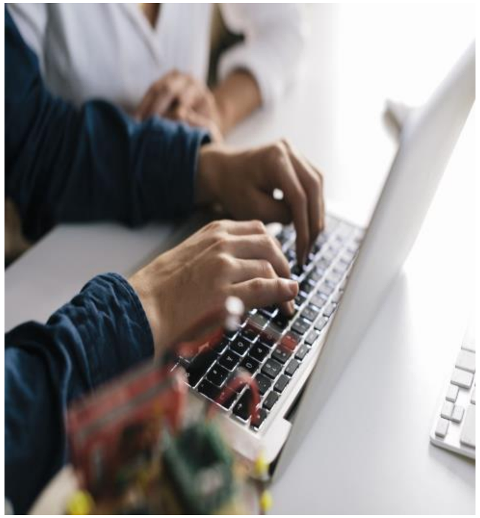
- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider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

2. Financial Statements - other communication requirements

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

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any incidents in the period other than those identified by the Counter Fraud Service, and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council, which is appended at Appendix E.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to those organisations with which it banks, borrows and in which it invests. This permission was granted and the requests were sent. We are currently waiting for a response for two of these requests.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements: see Appendix C for the most significant amendments made to disclosures. In addition, a small number of amendments were made to improve clarity for the reader.

2. Financial Statements - other communication requirements



Issue	Commentary
Audit evidence and explanations/ significant difficulties	Management has been co-operative in providing information throughout the course of the audit. **Management's assumptions and estimates** The revised auditing standard in relation to estimates has led to heightened scrutiny over the estimates in the accounts, particularly property and pension valuations. For property valuations in particular there has been significant enquiry and challenge with both sets of valuers over the inputs and assumptions applied, as discussed on pages 15 and 16. We received responses to our follow up queries regarding key assumptions from the valuer on 14th October. This is now being considered by the audit team.
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. 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.

2. Financial Statements - other communication requirements

Our responsibility

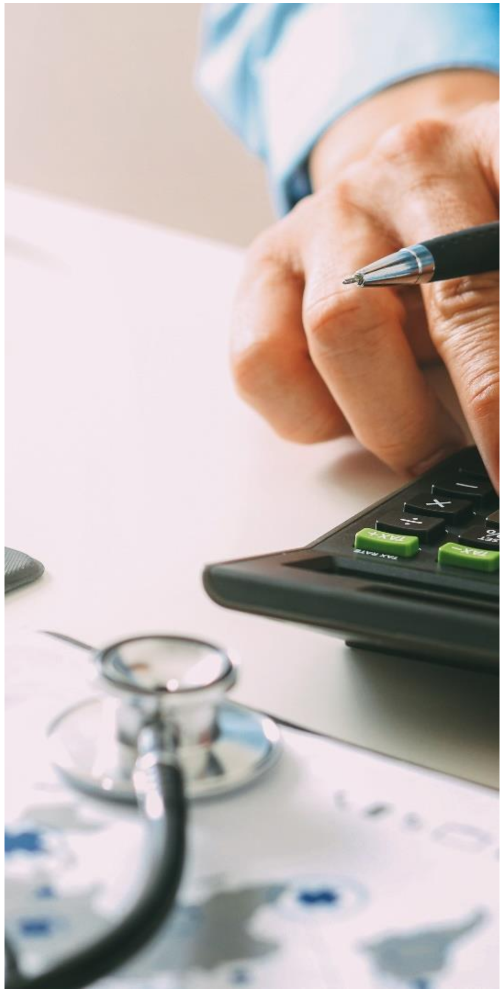
As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability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

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

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to the separate Committee agenda item.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. We currently have nothing to report on these matters.

Issue	Commentary
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. As the Council exceeds the group reporting threshold, we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. We have been unable to commence this work as the guidance and reporting instructions have not yet been released. We are aware that the Council have recently been notified that the pack will not be made available to them until December.
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2020/21 audit of Shropshire Council in the audit report, as set out in the Audit Committee's separate agenda item, pending completion of the WGA work, work on objections received from taxpayers and issuance of our Auditor's Annual Report.



3. 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.
- Auditors undertaking sufficient analysis on the Council's VFM arrangements to arrive at 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 the three specified reporting criteria.

Improving economy, efficiency and effectiveness

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

Financial Sustainability

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

Governance

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

Potential types of recommendations

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

Statutory recommendation

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

Key recommendation

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

Improvement recommendation

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

3. VFM - our procedures and conclusions

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix G to this report. We expect to issue our Auditor's Annual Report before Christmas. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any potential risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified the potential risk/s set out in the table below. Our work on this risk is underway and an update is set out below.

Risk of significant weakness	Work performed to date
Financial Sustainability (risk as noted in our Audit Plan) 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.	We noted that we would review the Council's Medium Term Financial Statement and financial monitoring reports and assess the assumptions being used and savings being achieved. We have considered: • how the Council ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them • how the Council plans to bridge its funding gaps and identifies achievable savings • how the Council plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities • how the Council ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system • how the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans We are in the process of drawing our findings together but have not identified any significant weaknesses from the work done to date. As part of our VFM work we have also considered the Council's governance arrangements, how it has responded to the Covid-19 pandemic and how it ensures economy, efficiency and effectiveness in its service delivery. We have conducted a comprehensive document review and have spoken to several officers of the senior leadership team, and sought corroborating evidence to the discussions held about the arrangements in place. Again, we are in the process of drawing our findings together but have not identified any significant weaknesses from the work done to date.

3. VFM - our procedures and conclusions

Risk of significant weakness	Work performed to date
Governance - Highways contract governance (risk as noted in our Audit Plan) 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.	As part of our minute reviews we have considered existing reporting made to relevant committees in relation to highways contract governance. This involves reporting by the Council's Internal Audit department. We are in the process of drawing our findings together but have not identified any significant weaknesses from the work done to date.

4. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention, in addition to those we have already drawn to your attention in our Audit Plan.

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.

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.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

4. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified, which were charged from the beginning of the financial year to September 2021, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

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

Audit-related service	Fees £	Threats identified	Safeguards
Certification of Housing capital receipts grant	3,500 (expected)	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is anticipated to be £3,500 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.
		Self review (because GT provides audit services)	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 Teachers Pension Return	5,400 (expected)	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £5,400 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.
		Self review (because GT provides audit services)	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 Housing Benefit Claim	21,500 (expected)	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is anticipated to be £21,500 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.
		Self review (because GT provides audit services)	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.
Total	£30,400		

Appendices

A. Action plan – Audit of Financial Statements

We have identified 6 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 2021/22 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Low	As part of our testing of Property Plant and Equipment it was identified that there are low value assets which are considered as part of the Council's valuation process but are not included within the financial statements. Through discussions with the Council these are assets with a value of below £50,000. We are satisfied that these assets in total are currently trivial. However, the Council will need to monitor this to ensure that the total value of assets not subject to revaluation does not significantly increase.	The Council should review its arrangements to monitor de-minimis assets and ensure an appropriate accounting policy is included within the financial statements. **Management response** All assets that fall under the requirements of valuation are included in the Council's valuation programme. A full valuation is undertaken and if the value is calculated to be under £50,000 the asset valuation is listed as de-minimis. The accounting policy has been updated to reflect this

Controls

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

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
Medium	**Inadequate control over privileged accounts within Active Directory.** Application access was not revoked for one Domain Admin, who has 3 accounts, one of which is named TEMP and one not required. We noted there were 160 Workstation Admin accounts across the business. We were unable to establish what these accounts were used for. One System Admin account should have been disabled on 31/3/21 however was still active during the period of the audit (April onwards) Risk: Users with administrative privileges at application level have the ability to bypass system-enforced internal control mechanisms and may compromise the integrity of financial data. The use of generic or shared accounts with high-level privileges increases the risk of unauthorised or inappropriate changes to the application or database. Where unauthorised activities are performed, they will not be traceable to an individual. The excessive use of accounts with privileged access increases the risk of end-users being able to : • change system configuration settings without authorisation and approval • read and modify sensitive data, • create, modify or delete user accounts without authorisation, • delete or disable system audit logs. Where system access for leavers is not disabled in a timely manner, there is a risk that former employees will continue to have access and can process erroneous or unauthorised access transactions.	Management should undertake a review of all user accounts within Active Directory, to identify all privileged accounts. For each account identified management should confirm the - requirement for the account to be active and be assigned privileged access - which users have access - controls in place to safeguard the account from misuse. Where possible, privileged accounts should be removed, and individuals should have their own uniquely identifiable user accounts created to ensure accountability for actions performed. **Management response** Users with administrative roles within Active Directory do not have access within ERP as the systems are separate and not directly linked to each other. Any workstation or domain admin roles in Active Directory do not grant any ERP or application level permission. The domain admin account mentioned was disabled so not usable, and the workstation admins have been reviewed and the accounts listed required this access. Not all were for staff, several were system accounts and accounts that don't currently need this access but may in the future are either disabled or expired. A further review or workstation and domain administrative roles within AD will be carried out as part of our PSN re-certification work.

Controls

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

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
Medium	**Lack of review of the Access control policy and the Application security policy** While security management procedures are in place, the Application control policy was due for review in February 2020 and the Application security policy was due for review in May 2020. The IS policies require an annual review to ensure security requirements and priorities are appropriately captured. **Risk** Absence of a comprehensive IT security policy will have an adverse impact on the organisation to ensure that the data and network are protected from potential and emerging security threats.	Management should ensure that a comprehensive IT security policy and associated procedures are documented, approved at the appropriate level and communicated to all users. The IT security policy and procedures should provide guidance over the following: - Segregation of duties definition - Privileged access - Data protection **Management response** As part of working towards ISO27001 a suite of policies and procedures have been created and reviewed for sign off, due to changes in the governance structure this has been delayed but recent changes will enable the policies to be renewed and reviewed.
Medium	**No Current PSN Certification and No current Network diagram available** We were informed that no PSN code of Connection is currently in place or an up to date network diagram. We understand that there are valid and functioning boundary controls between different security networks, but due to COVID, these items were not prioritised. **Risk** Without performing routine health checks, penetration tests and having a CoCo Connection demonstrates that the infrastructure is sufficiently secure that its connection to the PSN would not present an unacceptable risk to the security of the network, and external and/or internal parties may be able to gain access to information assets by exploitation security vulnerabilities.	Penetration tests and vulnerability scans should be performed on a regular basis to ensure all vulnerabilities are found and remediated before they can be exploited by cyber criminals. The frequency of testing will depend on the: - likelihood of being attacked – being a high-profile company or a high-value target (when companies hold lots of information that can be commoditised). - company's presence in the press – the likelihood of attacks will increase if there are environmental, political or human rights reasons - compliance requirements - use of open-source software, which is more vulnerable to automated attacks. - significant changes to the company infrastructure or network **Management response** Although we do not currently hold a valid PSN certificate a recent cyber security health check has been completed to aid us in regaining this certification. As part of this work an up to date network diagram will need to be produced.

Controls

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

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
Medium	**Evidence requested but not provided – Leavers process.** We were unable to complete the testing for the controls around security management, specifically, the leavers process. While a significant amount of testing activity was undertaken by the audit team, there was a lack of supporting evidence to demonstrate the procedures undertaken and conclusions reached. **Risk:** There is a risk that key aspects of the design and development process including functional design and testing may not be appropriate. Furthermore, the control may not consistently operate if testing is not completed.	Management should ensure comprehensive IT policies and procedures are developed covering Security management, specifically the leavers process. The controls should reflect the processes that are undertaken. We recommend that the evidence is provided to complete the testing required. Without evidence we were unable to complete testing. **Management response** A wider review of the Councils starters, movers and leavers process is being planned with support from teams within IT, HR and other relevant departments. A business analyst has already begun supporting this work as it is recognized that this is an area of weakness within the Council. Manual processes do currently exist within the Council for managers to follow when staff leave however as this is dependent on several manual tasks they frequently aren't completed fully.
Medium	**ERP specific - Lack of review of the third-party IT assurance reporting for the ERP system** Unit4 provides complete Managed IT Services that include hardware and software maintenance, backup and recovery services, managed data centre services, product supply and professional IT services, 24 hours a day, 7 days a week, 365 days a year. The ERP Financial application is hosted within Unt4's data centres, Unit4 Global Cloud, Operations – Managed, Cloud Data Centre **Risk** While an independent service organisation assurance report SOC 1 is available, Shropshire Council has not assessed the IT control findings. As businesses continue towards digital transformation and a simplified IT architecture, dynamic service delivery models are becoming the norm. There is a risk that organisations have less visibility over the effectiveness of the outsourced IT control environment and whether there are sufficient controls in operation.	Where independent service organisation assurance reports are available, management should assess the findings and consider whether complementary user entity controls are effective. **Management response** As we move more towards cloud-based systems, we recognize the need for improved processes in this area. A new process will be put in place that on receipt of the SOC report it will be jointly reviewed by the Application Management Team, IT Security and Infrastructure – it will be reviewed against the pertinent elements and contract and a summary of these findings provided to the business owner.

Controls

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

B. Audit Adjustments

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

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2021. Note that there are elements of our audit which are still underway as at the time of writing and therefore there could be further amendments required.

Detail	Comprehensive Income and Expenditure Statement	Statement of Financial Position	Impact on total net expenditure £'000
Grants received in advance	-	20.5m	-
Payables	-	-20.5m	-
Overall impact	-	-	-

Impact of unadjusted misstatements

There are currently no adjustments identified during the 2020/21 audit which have not been made within the final set of financial statements. Note that there are elements of our audit which are still underway as at the time of writing and therefore there could be further amendments required.

Impact of prior year unadjusted misstatements

There were no unadjusted misstatements in relation to the 2019/20 financial statements.

B. 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/misclassification	Adjusted?
General A small number of other minor amendments were made to correct typing errors, page numbering and incorporate additional narrative information. We do not deem these significant enough to bring to the attention of those charged with governance.	TBC
Note 3. Critical judgements Critical judgements are reported in note 3 to the financial statements. We have reviewed disclosures and adjustments have been made in relation to future funding, Schools, grants and the LEP.	TBC
Note 21 .Financial instruments Additional disclosures are required in order to clarify the valuation techniques, inputs and risks associated with the following balances within note 21. financial instruments: • PFI liability of £203.186m • LOBOs liabilities of £32.3 • Expected credit loss allowance as required by IFRS 9	TBC
Note 39 - Grants Included within Grants Receipts in Advance is £20.3m relating to the S31 Business Rate Relief grant. This is repayable and as such should be classified as a short term creditor rather than Grant Receipts in Advance.	TBC
Group Accounts Where the difference between the single entity accounts and the group accounts is material then Code compliant notes should be provided at the group level. There are material differences for cash and cash equivalents, pension liability but notes at the group level are not provided.	TBC

C. Follow up of prior year recommendations

We identified the following issues in the audit of Shropshire Council's 2019/20 financial statements, which resulted in 4 recommendations being reported in our 2019/20 Audit Findings report.

We have followed up on the implementation of these recommendations and have rolled forward 1 for further consideration.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	**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.	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 – October 2021** A complete review of existing savings, taking into account the impact of the pandemic, has taken place. A number of unachieved savings were met from un-ringfenced Covid-19 Grant in 2020/21 and these are now expected 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 Shropshire Plan and Financial Strategy will reflect this approach. The Council's response to the current and coming Financial Year will be based upon lessons learned from the pandemic, taking advantage of new opportunities and managing within the funding envelope set out within the short to medium term Spending Review, the 2022/23 settlement and any other Government grants. The Council's longer term strategy began in July 2021 as part of the medium term financial strategy process with budget challenge sessions involving Cabinet, Executive Directors and all relevant officers in ensuring there is a robust medium to long term plan. The outcome of the process will be included in 2022/23 financial strategy.
✓	**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)	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 – October 2021** FTE reports have been run monthly since January 2020 and were provided as part of the interim and final audit for 2020/21.

Assessment

✓ Action completed

X Not yet addressed/ongoing

C. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**Financial statement quality assurance procedures** 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. 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.	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. **Management response – October 2021** Figures are cross checked between the primary statements, notes to the accounts and other sections of the accounts to identify any mapping issues.
✓	**Audit Fee note** Audit fees per the draft financial statements do not agree to the final agreed audit fees charged in the financial year. Audit fees should be reconciled to the issued Audit Plan for the financial year. This includes agreed fee variations where appropriate.	Audit fees should be reconciled to the issued Audit Plan for the financial year. This includes agreed fee variations where appropriate. **Management response – October 2021** Audit fees were confirmed with the auditors prior to the production of the accounts.

Assessment

✓ Action completed

X Not yet addressed

D. 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	£167,061	£167,061*
Audit of subsidiary company - Shropshire Towns and Rural (STaR) Housing Ltd	£19,000	£19,000
Total audit fees (excluding VAT)	£186,061	£186,061

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

The disclosure in Note 37 of the accounts is as follows and with the exception of rounding we are satisfied that statutory fees as well as non-audit fees for other services as set out in this report, reconciles to the financial statements.

37. EXTERNAL AUDIT COSTS

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

	2020/21 £000	2019/20 £000
Fees payable to external audit with regard to external audit services carried out by the appointed auditor	167	127
Fees payable to external audit for the certification of grant claims and returns	14	13
Fees payable in respect of other services provided by the external audit during the year	8	8
Total	189	148

Non-audit fees for other services	Fees**
Audit Related Services:	
• Housing capital receipts	£3,000
• Teachers Pension Return	£4,800
• Housing Benefit Subsidy Claim	£13,300
Total non-audit fees (excluding VAT)	£21,100

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

D. 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

E. Management Letter of Representation

Shropshire Council

Financial Statements for the year ended 31 March 2021

This representation letter is provided in connection with the audit of the financial statements of Shropshire Council for the year ended 31 March 2021 for the purpose of expressing an opinion as to whether the Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards, and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

i. We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

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

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

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

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include the valuation of the net pension liability and the valuation of land and buildings. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

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

vii. Except as disclosed in the financial statements:

a. there are no unrecorded liabilities, actual or contingent

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

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

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

E. Management Letter of Representation (continued)

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

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

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

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

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

xiv. We have updated our going concern assessment and cashflow forecasts in light of the Covid-19 pandemic. We continue to believe that the Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that :

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

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

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

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

Information Provided

xv. We have provided you with:

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

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

c. access to persons within the Council via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. from whom you determined it necessary to obtain audit evidence.

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

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

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

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

E. Management Letter of Representation (continued)

a. management;

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

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

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

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

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

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

Annual Governance Statement

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

Narrative Report

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

Approval

The approval of this letter of representation was minuted by the Council's Audit Committee at its meeting on XXX

F. Audit letter in respect of delayed VFM work

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

Audit Committee Chair
Shropshire Council

Dear Councillor Williams, Chair of Audit Committee as TCWG,

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies we are required to issue our Auditor's Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation.

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our report no later than 31 December 2022.

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

Yours faithfully

Grant Patterson

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

Grant Thornton

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