

The Draft Audit Findings (ISA260) Report for Shropshire County Pension Fund

Year ended 31 March 2024

04 September 2024





Shropshire County Pension Fund

Shirehall

Abbey Foregate
Shrewsbury
SY2 6ND

4 September 2024

Dear Cllr Biggins

Audit Findings for Shropshire County Pension Fund for the 31 March 2024

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

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

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

We encourage you to read our transparency report which sets out how the firm complies with the requirements of the Audit Firm Governance Code and the steps we have taken to drive audit quality by reference to the Audit Quality Framework. The report includes information on the firm's processes and practices for quality control, for ensuring independence and objectivity, for partner remuneration, our governance, our international network arrangements and our core values, amongst other things. This report is available at [transparency-report-2023.pdf \(grantthornton.co.uk\)](#). PSAA has also published their own Quality Monitoring Report, this report is available at [Audit Quality Monitoring Report 2023 – PSAA](#).

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

Grant Patterson

Grant Patterson

Director
For Grant Thornton UK LLP

**Private and
Confidential**

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This Draft Audit Findings Report (AFR) 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 will be discussed with management, the Pensions Committee and Audit Committee.

Grant Patterson

Grant Patterson
For Grant Thornton UK LLP

4 September 2024

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Pension Fund 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.

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1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Shropshire County Pension Fund (‘the Pension Fund’) and the preparation of the Pension Fund’s financial statements for the year ended 31 March 2024 for the attention of those charged with governance.

Financial Statements	
<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice (‘the Code’), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none">the Pension Fund’s financial statements give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2024 and of the amount and disposition at that date of the fund’s assets and liabilities, other than liabilities to pay promised retirement benefits after the end of the fund year; andhave been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.	<p>Our audit work was completed in a hybrid approach during July-August. Our findings are summarised on pages 5 to 16.</p> <p>We have not identified any adjustments to the financial statements that impact upon the Pension Fund’s reported financial position at this stage.</p> <p>We have identified £12.7m of differences in the valuation of the Fund’s investments disclosed in the financial statements at 31 March 2024 and the valuation statements received from the third-party investment managers. We recognise this is primarily driven by timing differences on closing down the financial statements and receipt of these valuation statements. Management are proposing not to amend the financial statements on the basis that the differences are not material (0.05% of investment assets) and the Pensions Committee and Audit Committee will be asked to confirm their agreement through the Letter of Representation. These unadjusted differences are detailed in Appendix D (page 24).</p> <p>We have identified a small number of classification and disclosure changes in Appendix D (Page 23). The most significant disclosure amendments relate to note 14a ‘fair value hierarchy’ (adjustment of £6.4m) and note 15a ‘classification of financial instruments (adjustment of £8.895m). Disclosure adjustments have no impact upon the value of assets available to the Fund.</p> <p>We have also raised recommendations for management as a result of our audit work. These are set out in Appendix B. Our follow up of recommendations from the prior year’s audit are detailed in Appendix C.</p> <p>Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements. A schedule of outstanding items as at 2 September is attached on page 6.</p> <p>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.</p> <p>Our anticipated opinion on the financial statements will be unmodified</p> <p>Whilst our work on the Pension Fund financial statements is complete, we will be unable to issue our final audit opinion on the Pension Fund financial statements until the audit of the Administering Authority is complete.</p> <p>We are required to give a separate opinion for the Pension Fund Annual Report (the Annual Report) on whether the financial statements included therein are consistent with the audited financial statements. We propose to issue our ‘consistency’ opinion at the same time as our audit opinion. We currently anticipate this will be before the 1 December 2024 statutory publication deadline for the Annual Report.</p>

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 will be discussed with management and the Pensions Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

For Shropshire County Pension Fund, the Audit Committee is formerly those charged with governance. However, in practice the Pension Committee fulfils the role of those charged with governance i.e. it considers the draft financial statements and is part of the overall member oversight process and recommends adoption of the financial statements to the Audit Committee. We have therefore determined the Pensions Committee as the body we would communicate with and copy our reports to the Audit Committee.

Audit approach

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

- An evaluation of the Pension Fund'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 altered our audit plan, as communicated to you on 15 March 2024.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified opinion on the pension fund financial statements and an unqualified consistency opinion for the Annual Report.

Our outstanding work is attached on the following page.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the Pension Team staff.

2. Financial Statements: audit progress

Our work is largely complete and there are currently no matters of which we are aware that would require further modification of our audit opinion, subject to the more significant outstanding matters detailed below.



- Receipt of evidence to support Level 2 investments in respect of LGIM (1 sample item)
- Receipt of evidence to support Level 3 investments (1 sample item)
- Receipts of journal enquiry responses and finalisation of our work on Journals
- Manager and Engagement review of above following team completion



- Completion of procedures regarding subsequent events
- Finalisation of our work regarding technical review of the financial statements
- Other non-material disclosures to review, including disclosure checklist.
- Completion of our work on litigation and claims
- Completion of our work regarding IAS 19 responses
- Receipt of letter of representation
- Manager and Engagement review of above following team completion

- Status:
- Significant elements outstanding – high risk of material adjustment or significant change to disclosures within the financial statements
 - Some elements outstanding – moderate risk of material adjustment or significant change to disclosures within the financial statements
 - Not considered likely to lead to material adjustment or significant change to disclosures within the financial statements

Subject to the receipt of the outstanding items and satisfactory completion of the above points, we anticipate issuing an unqualified opinion on the pension fund financial statements and an unqualified consistency opinion for the Annual Report.

2. Financial Statements: materiality



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 the disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our audit plan on 15 March 2024

We set out in this table our determination of materiality for the Pension Fund.

	Pension Fund Amount (£)	Qualitative factors considered
Materiality for the financial statements	£27.9m	Materiality is calculated as approximately 1.25% of the gross assets per the prior year draft accounts. We deem this to be level above which errors or omission would alter the economic decisions of users of the accounts
Performance materiality	£20.98m	We have determined £20.98m (75% of materiality) to be an appropriate level for Performance Materiality. The Pension Fund has a stable, experienced team with no history of accounting issues, and this continues to be the case.
Trivial matters	£1.39m	We deem matters below 5% of materiality to be sufficiently trivial not to warrant drawing to the attention of the Pensions Committee or the Audit Committee.
Specific Materiality for fund account	£11.3m	Materiality is calculated as approximately 10% of the gross expenditure per the prior year draft accounts. We deem this to be level above which errors or omission would alter the economic decisions of users of the accounts



2. Financial Statements: Overview of audit risks

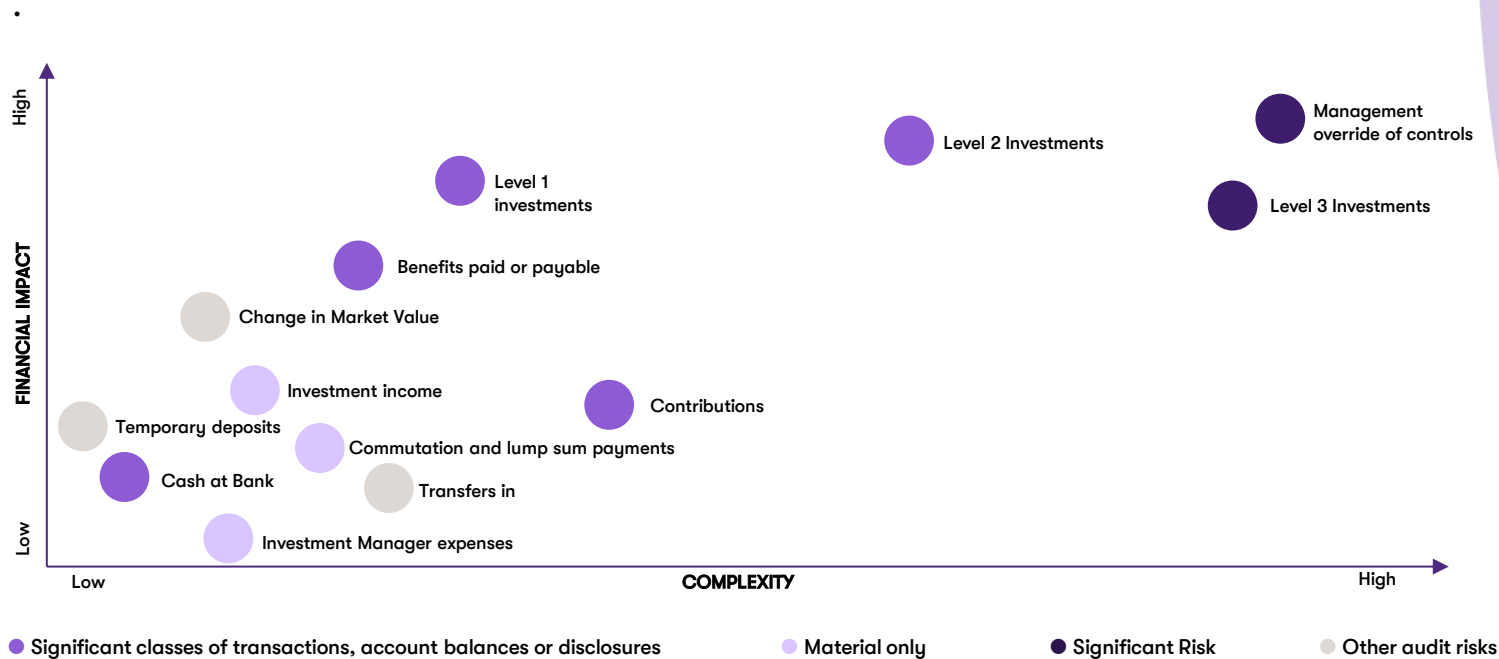
Significant risks are defined by ISAs (UK) as an identified risk of material misstatement for which the assessment of inherent risk is close to the upper end of the spectrum due to the degree to which risk factors affect the combination of the likelihood of a misstatement occurring and the magnitude of the potential misstatement if that misstatement occurs.

Significant classes of transactions, account balances, and disclosures, are associated with risks of material misstatement but are not always significant risks.

Material financial statement line items not associated with risks of material misstatement.

Other audit risks are accounts that are not associated with any SCOT + or with a material only financial statement line item or disclosure.

In the graph below, we have presented the significant risks, SCOT+ and material only and other risks relevant to the audit.



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
<p>Management Override of Controls</p> <p>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.</p> <p>The Fund faces external scrutiny of its spending and stewardship of assets, and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk of material misstatement.</p>	<p>Below is a summary of the work performed. We have;</p> <ul style="list-style-type: none"> evaluated the design and implementation of management controls over journals analysed the journals listing and determined the criteria for selecting high risk and 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 <p>No changes have been identified to the accounting policies and the estimation process for the valuation of the defined benefit schemes and plan assets.</p> <p>Our work is substantially complete. At this stage we have not identified any significant issues in respect of management override of controls. We will reconsider this conclusion upon receipt of outstanding information as detailed on page 6.</p>
<p>Presumed risk of fraud in revenue recognition</p> <p>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.</p> <p>Having considered the relevant risk factors and material income streams we determined that the risk could be rebutted.</p>	<p>There were no changes to our assessment reported in the audit plan and the audit work performed did not identify any issues in respect of revenue recognition.</p>
<p>Risk of fraud related to expenditure recognition</p> <p>PAF Practice Note 10 suggests that the risk of material misstatement due to fraudulent financial reporting that may arise from the manipulation of expenditure recognition needs to be considered, especially an entity that is required to meet financial targets.</p> <p>Having considered the relevant risk factors and material expenditure streams, we have determined that no separate significant risk related to expenditure recognition was required.</p>	<p>There were no changes to our assessment reported in the audit plan and the audit work performed did not identify any issues in respect of expenditure recognition.</p>

2. Financial Statements: Significant risks

Risks identified in our Audit Plan

Commentary

Valuation of Level 3 investments

By their nature Level 3 investment valuations lack observable measurable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.

Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.

Management utilise the services of investment managers and/or custodians as valuation experts to estimate the fair value as at 31 March 2024.

We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement.

Below is a summary of the work performed:

- evaluated management's process for valuing Level 3 investments and performed a walkthrough to confirm that controls are implemented as designed
- reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuation provided for these types of investment to ensure the requirement of the Code are met
- independently requested year-end confirmations from investment managers and the custodian and considered the role played by the custodian in asset valuation
- for a sample of investments, we have tested the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and comparing these to the fund manager reports at the same date to ensure within appropriate variance threshold. We also reviewed service auditor reports for relevant investment managers
- tested valuations made during the year to see if they had been input correctly into the Pension Fund's asset register
- where available, sample reviewed investment manager service organisation reports on design effectiveness of internal controls. Identified the key valuation controls at the fund managers (and where appropriate the custodian) and considered the design effectiveness of the controls through enhanced documentation of our consideration of the relevant controls (service auditor) reports.

Our audit work identified that the actual value of investments as at 31 March 2024 is £12.7m greater than the estimate made when preparing the accounts. This is largely attributed to timing differences as a result of final capital statements not being available when the Pension Fund's draft accounts were being compiled. Timing differences such as this are not unusual within Pension Funds. The difference is 0.10% of total investment assets and less than 50% of our performance materiality. Management has determined not to amend the Pension Fund's Statement of Accounts on the basis that the difference is not materially quantitatively or qualitatively to readers of the accounts. The Pensions Committee will be asked to confirm their agreement to this through the Letter of Representation.

Our work is substantially complete, outstanding information is detailed on page 6 .

2. Financial Statements: key judgements and estimates

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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 3 Investments – £596.3m	<p>The Pension Fund has investments in unquoted equity and pooled investments vehicles that in total are valued on the net assets statement as at 31 March 2024 at £596.3million.</p> <p>These investments are not traded on an open exchange/market and the valuation of the investment is highly subjective due to a lack of observable inputs. In order to determine the value, management rely on the valuation that the investment managers provides.</p> <p>Northern Trust is the pension fund's custodian, their role is the safeguarding and keeping assets records. The valuation of the funds is provided by the investment managers.</p> <p>Service auditor reports for investment managers and custodians were obtained and considered by management at the pension fund.</p> <p>The value of the investment has increased by £6.09m in 2023/24, this is largely due to sales, transfers, purchases and change in the market value for these funds.</p>	<p>Management determine the value of level 3 investments through placing reliance on the expertise of the investment managers. We have performed an assessment of management's expert i.e. Investment manager.</p> <p>In addition to the investment manager confirmations at year end; we have obtained latest audited accounts and reviewed cash flow movements to 31 March 2024.</p> <p>We have also tested a sample of Level 3 investments to audited accounts and final capital statements to determine if the values estimated are reasonable.</p> <p>Through this work we have identified difference in investment values to those used by management of £1.4m in Level 3 valuations. We are satisfied that management's estimation approach is reasonable.</p> <p>Through this work we have identified potential differences in investment values to those estimated by management of £1.4m in Level 3 valuations. This is 0.23% of the balance and close to our trivial level of £1.39m. We are therefore satisfied that management's estimation approach is reasonable.</p> <p>Please see our findings on page 10 where we identified a £12.7m difference between the final value of the private equity and infrastructure portfolio reported by investment managers from the estimated value in the accounts. We recognise this is primarily driven by timing differences on closing down the financial statements and receipt of these valuation statements.</p> <p>Our work is substantially complete, outstanding information is detailed on page 6 .</p>	TBC

Assessment

- [Red] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- {Amber} 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
- [Green] 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
Level 2 Investments – £974.7m	<p>The Pension Fund have investments in pooled investments that in total are valued on the net assets statement as at 31 March 2024 at £974.7million.</p> <p>The investments are valued using the closing bid price where bid prices and offer prices are published or where the funds are index tracked, these are based on the market quoted prices of the underlying securities. As the pooled investments fund invested in are mainly bonds, equities and property unit trust in which prices are easily obtained in the market.</p> <p>The value of the investment has decreased by £172.7m in 2023/24 due to , this is largely due to sales, transfers, purchases and change in the market value for these funds.</p>	<p>Management determine the value of level 2 investments through placing reliance on the expertise of the investment managers</p> <p>In addition to the investment manager confirmations at year end; we have independently obtained the quoted price as at year end and compared it to the investment manager's price. Where prices could not be obtained, we obtained the latest audited accounts and reviewed the unaudited valuation.</p> <p>We have also tested a sample of level 2 investments to determine if the values estimated are reasonable. Through this work we have identified potential differences in prices to those used by management of £1.5m in Level 2 valuations. This is 0.15% of the balance and close to our trivial threshold of £1.39m. As prices can come from different sources at slightly different times we are therefore satisfied that management's estimation approach is reasonable.</p> <p>Our work is substantially complete, outstanding information is detailed on page 6.</p>	TBC
Level 1 Investment – £932.1m	<p>The Pension Fund have investments in pooled investments, cash and other deposits that in total are valued on the net assets statement as at 31 March 2024 at £932.1million.</p> <p>The investments are valued using the closing bid price where bid prices and offer prices are published, these are based on the market quoted prices of the underlying securities. As the pooled investments fund invested in are mainly equities and bonds and cash deposits and other net current assets in which prices are easily obtained in the market.</p> <p>The value of the investment has increased by £425.7m in 2023/24 this is largely due to sales, transfers, purchases and change in the market value for these funds.</p>	<p>Management determine the value of level 1 investments through placing reliance on the expertise of the investment managers.</p> <p>In addition to the investment manager confirmations at year end; we have independently obtained the quoted price as at year end and compared it to the investment manager's price.</p> <p>We have also tested a sample of level 1 investments to determine if the values estimated are reasonable.</p> <p>No findings have been identified in our testing</p>	We consider management's process is appropriate and key assumptions are neither optimistic or cautious













Assessment

- [Red] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- {Amber} 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
- [Green] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements: Information Technology





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

The full IT report will be reported to the Council's Audit Committee. Our summary assessment is detailed below and recommendations specific to the pension fund are attached within Appendix B

IT application	Level of assessment performed	Overall ITGC rating	ITGC control area rating			Related significant risks/other risks
			Security management	Technology acquisition, development and maintenance	Technology infrastructure	
Altair	Detailed ITGC assessment (design effectiveness only)					N/A
Unit 4	Detailed ITGC assessment (design effectiveness only)					N/A
Active Directory	Detailed ITGC assessment (design effectiveness only)					N/A

We also performed specific procedures in relation to the Altair data migration in year. We have no issues to report in this regard.

Assessment

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

2. Financial Statements: other communication requirements

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

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Pension Committee . We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We 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 Pension Fund , which is included in the Pension Committee papers.
Audit evidence and explanations	All information and explanations requested from management was provided.
Confirmation requests from third parties	We send confirmation requests to all investment managers. The number of requests sent were 9 and all of these requests were returned with positive confirmation. We are completing our audit procedures in respect of reviewing these confirmations but at the time of drafting this report no matters have been identified.
Accounting practices	We have evaluated the appropriateness of the Pension Fund's accounting policies, accounting estimates and financial statement disclosures.

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	<p>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.</p> <p>Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul style="list-style-type: none"> 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. <p>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 Pension Fund meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul style="list-style-type: none"> the nature of the Pension Fund and the environment in which it operates the Pension Fund's financial reporting framework the Pension Fund's system of internal control for identifying events or conditions relevant to going concern management's going concern assessment. <p>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none"> 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	<p>The Pension Fund is administered by Shropshire County Council (the 'Council'), and the Pension Fund's accounts form part of the Council's financial statements. We are required to read any other information published alongside the Council's financial statements to check that it is consistent with the Pension Fund financial statements on which we give an opinion and is consistent with our knowledge of the Authority. No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to separate item on the Committee agenda for our draft audit opinion.</p>
Matters on which we report by exception	<p>We are required to give a separate consistency opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. We propose to issue our 'consistency' opinion at the same time as our audit opinion. We currently anticipate this will be before the 1 December 2024 statutory publication deadline for the Annual Report</p> <p>We are required to report if we have applied any of our statutory powers or duties as outlined in the Code. We have nothing to report on these matters.</p> <p>We have received one objection in relation to the pension fund financial statements. This is currently under review by the Engagement Lead of Shropshire Council as the Administering Authority. We will update the Pensions and Audit Committee in due course.</p>



3. Independence considerations

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant matters that may bear upon the integrity, objectivity and independence of the firm or covered persons (including its partners, senior managers and managers).

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in 7 September 2022 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix E.

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 Pension Fund. The following audit services were identified which were charged in the current financial year, as well as the threats to our independence and safeguards that have been applied to mitigate these threats. Note that fees for IAS 19 letters for employer body auditors were classed as non-audit fees prior to 2022/23. The National Audit Office have confirmed that the provision of IAS 19 assurances to auditors of local government and NHS bodies should be considered work undertaken under the Code of Audit Practice for 2022/23 onwards.

Service	Fees £	Threats identified	Safeguards
Audit related			
IAS 19 Assurances	£2,200 (2 requests)	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 £1,100 per request in comparison to the total proposed fee for the audit of £83,094 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

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

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Grant Thornton International Transparency report 2023](#). PSAA has also published their own Quality Monitoring Report, this report is available at [Audit Quality Monitoring Report 2023 – PSAA](#).

3. Independence and ethics

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

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

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention and consider that an objective reasonable and informed third party would take the same view. The firm and each covered person have complied with the Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements

Following this consideration we can confirm that we are independent and are able to express an objective opinion on the financial statements. In making the above judgement, we have also been mindful of the quantum of non-audit fees compared to audit fees disclosed in the financial statements and estimated for the current year.

Appendices

- A. Communication of audit matters to those charged with governance
- B. Action plan – Audit of Financial Statements
- C. Follow up of prior year recommendations
- D. Audit Adjustments
- E. Fees and non-audit services
- F. National Context- Audit Backlog

A. Communication of audit matters to those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Distribution of this Audit Findings report

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

B. Action Plan – Audit of Financial Statements

We have identified two recommendations for the Pension Fund as a result of issues identified during the course of our audit. Both are related to the IT environment and are best practice opportunities. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2024/25 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Low - Best practice improvement opportunity	<p>IT recommendation - Lack of Change Management Controls for Batch Scheduling in Altair</p> <p>The IT audit uncovered a deficiency in change management controls related to batch scheduling configurations. Specifically, there is a lack of formalised procedures for documenting, reviewing, and approving changes made to batch scheduling parameters and job schedules.</p> <p>Risk</p> <p>Without adequate change management controls, unauthorised or undocumented changes to batch scheduling configurations can lead to disruptions in critical business processes, data loss, and security vulnerabilities.</p> <p>Furthermore, the absence of a structured change management process increases the likelihood of configuration errors and inconsistencies.</p>	<p>Establish a formalised change management process for batch scheduling configurations, including documentation of proposed changes, impact assessment, approval workflows, and implementation controls. Implement segregation of duties to ensure that only authorised personnel can make and approve changes to batch scheduling parameters.</p> <p>Management response</p> <p>It has been confirmed that the only batch jobs managed by the Pension Fund are the scheduled monthly reports. A process will be implemented to manage any change to these. It will involve the change and sign off by Senior Systems Officers.</p>
Low - Best practice improvement opportunity	<p>IT recommendation - Lack of UAT testing completed for Altair changes</p> <p>We noted that for the sample change obtained, testing was not conducted before promoting the change into the live environment. Additionally, no approval was given prior to implementation.</p> <p>However, we noted that post implementation approvals were given to confirm the change implemented had met that change request.</p> <p>Risk</p> <p>Failure to adequately perform change management testing prior to releasing the change into the production environment could lead to a loss of data integrity, processing integrity and/or system down-time.</p>	<p>Management should ensure that change management procedures are recommunicated to staff so that testing is performed and approved prior to introducing a change into the live environment.</p> <p>Management response</p> <p>When a system release is being deployed by Heywood's there will be Systems Team Leader sign off on the test plan following the testing undertaken in the TEST environment to the release being deployed into the LIVE environment. Please note that dates to the TEST and LIVE environment are agreed before testing is undertaken.</p>

Controls

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

C. Follow up of prior year recommendations

We identified the following issues in the audit of Shropshire County Pension Fund's 2021/22 financial statements, which resulted in 3 recommendations being reported in our 2021/22 Audit Findings Report. We have followed up on the implementation of our recommendations as part of the 2023/24 audit and note that one has been superseded and one has been closed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p>There were differences identified between the fair value of investments reported in the financial statements and the statements received from investment managers. Investment valuations are based on a roll forward from the most recent capital statements available, which is not always 31 March.</p> <p>We recommend management explore ways to improve estimation techniques to enhance the accuracy of the valuation of fund assets at 31 March.</p>	<p>Management have utilised the closest available valuation and adjusted for cashflows to 31 March 2024, to estimate year end valuation.</p> <p>The difference identified through audit procedures is £12.7m and is below our performance materiality threshold.</p> <p>Recommendation considered closed.</p>
Recommendation superseded	<p>We identified a number of controls issues in security and access of Shropshire Council’s IT systems that is, Altair, Unit 4 ERP and Active Directory:</p> <ul style="list-style-type: none"> - we noted that there was inadequate control over privileged accounts within Active Directory (28 accounts) and Altair (3 accounts). 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. - lack of review of the Access control policy and the Application security policy. Further to the above, the absence of a comprehensive IT security policy will have an adverse impact on the organization to ensure that the data and network are protected from potential and emerging security threats. - evidence requested but not provided – Leaver’s process. There is a risk that key aspects of the design and development process including functional design and testing may not be appropriate. - lack of review of the third-party IT assurance reporting for the ERP system. While an independent service organization assurance report SOC 1 is available, Shropshire Council has not assessed the IT controls 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 organizations have less visibility over the effectiveness of the outsourced IT control environment and whether there are sufficient controls in operation. 	<p>IT audit have completed design and implementation procedures over relevant IT general controls for the Pension Funds main IT systems. Altair, Unit 4 and Active Directory.</p> <p>One previous recommendation has been addressed, however there are still four recommendation points either from prior periods or the current period.</p> <p>Revised recommendations specific to Altair are included in Appendix B, as such this recommendation has been superseded</p>

Assessment

- ✓ Action completed
- X Not yet addressed

D. Audit Adjustments

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

Impact of adjusted misstatements

There are no adjusted misstatements to report at this stage.

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/issue/Omission	Auditor recommendations	Adjusted?
A number of typographical and presentation errors have been identified throughout the financial statements.	Amend as required	TBC
Note 1 : Description of fund Current disclosure states "Currently, employer contribution rates range from 5.8% to 27.6% of pensionable pay". This is incorrect and needs to be amended to 'employer contribution rates range from 0% to 30.0% of pensionable pay.'	Update description	TBC
Note 3 – accounting policies <ul style="list-style-type: none"> Additional disclosure needs to be added in respect of LGPS central equity investment- The Pooling company was set up for a specific purpose there is no market value to attach to the shares. We can change the wording to reflect this but from a prudence perspective we hold capital at cost. Disclosures in relation to IFRS 16 are not compliant with the code. 	Update accounting policy	TBC
Note 5 Sources of estimation uncertainty This is not fully compliant with IAS 1 and as such narrative should be amended to clarify for the reader of the financial statements.	Update accounting policy	TBC
Audit fee - Note 8 management expenses The Financial statements audit fee of £70k does not agree to that included within audit plan of £84k. The Pension Fund should ensure financial statements reflect anticipated audit charge for the year.	Audit fee to be amended to agree to notified value as per audit plan	TBC
Note 14a – Fair Value Hierarchy Cash Deposits & Other (including net Current Assets) of £23.698m includes £6.430m which should be removed from this note as these are not investment assets. This adjustment will ensure note 14a agrees to the £2.496bn classified as 'total investment assets' in the net asset statement. This amendment will also be required to the comparative values with 'as restated' added to column heading and high level explanation of change made.	Reclassify	TBC
Note 15a Financial instruments The debtors balance disclosed in Note 15a - financial instruments includes "Contributions due" of £7.171m (PY: £6.463m) and "Lifetime and annual tax allowances" of £1.724m (PY: £1.551m). As these are statutory and not contractual in nature they are not deemed to be financial instruments and should therefore be removed from the disclosure. This amendment will also be required to the comparative values with 'as restated' added to column heading and high level explanation of change made.	Remove non-financial instruments from the disclosure.	TBC

D. Audit Adjustments (continued)

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2023/24 audit which have not been made within the final set of financial statements. The Pensions Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Pension Fund Account £'000	Net Asset Statement £' 000	Impact on total net assets £'000	Reason for not adjusting
Differences identified between the value of investments disclosed in the financial statements that are based on estimated value at 31 st March 2024 compared to the Actual investment valuation statement received following accounts preparation. The draft financial statement investment balance is £12.7m lower based on estimated value compared to if actual investment value	£12.7m	£12.7m	£12.7m	Not material qualitatively or quantitatively
Overall impact	£12.7m	£12.7m	£12.7m	

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2021/22 financial statements

Detail	Pension Fund Account £'000	Net Asset Statement £' 000	Impact on total net assets £'000	Reason for not adjusting
Differences identified between the value of investments disclosed in the financial statements that are based on estimated value at 31 st March 2024 compared to the Actual investment valuation statement received following accounts preparation. As assets are revalued at 31 March 2024 there is no impact upon the 2023/24 financial statements	£2.187m	£2.187m	£2.187m	Not material qualitatively or quantitatively
Overall impact	£2.187m	£2.187m	£2.187m	

E. Fees and non-audit services

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

Audit fees	Proposed fee
Shropshire County Pension Fund –PSAA Scale Fee	£75,564
ISA 315	£7,530
Total audit fees (excluding VAT)	£83,094
Non-audit fees: Shropshire Towns and Rural Housing Ltd (STAR Housing)/Harper Adams (IAS 19 Assurance Letter)	£2,200
Total audit fees (excluding VAT)	£85,294

The fees reconcile to the financial statements as follows:

Fees per financial statements note 8	£70,000
Reversal of prior year accrual	£14,000
IAS19 letter not in audit plan	£1,100 (Harper Adams)
total fees per above (rounded)	£85,100 (rounded)

*Note that fees for IAS 19 letters for employer body auditors were classed as non-audit fees prior to 2022/23. The National Audit Office have confirmed that the provision of IAS 19 assurances to auditors of local government and NHS bodies should be considered work undertaken under the Code of Audit Practice for 2022/23 onwards. Provision of IAS 19 assurances to auditors of any other type of entity remains non-Code work.

F. National Context- Audit Backlog

Consultation

The Ministry for Housing, Communities and Local Government (MHCLG), working with the FRC, as incoming shadow system leader, and other system partners, has put forward proposals to address the delay in local audit. The proposals consist of three phases:

Phase 1: Reset involving clearing the backlog of historic audit opinions up to and including financial year 2022/23 by 30 September 2024.

Phase 2: Recovery from Phase 1 in a way that does not cause a recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycles.

Phase 3: Reform involving addressing systemic challenges in the local audit system and embedding timely financial reporting and audit.

The consultation ran until 7 March 2024. Full details of the consultation can be seen on the following pages:

- [Consultations on measures to address local audit delays \(frc.org.uk\)](https://www.frc.org.uk/consultations/consultations-on-measures-to-address-local-audit-delays)
- [Addressing the local audit backlog in England: Consultation - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/addressing-the-local-audit-backlog-in-england)
- [Code of Audit Practice Consultation - National Audit Office \(NAO\)](https://www.nao.org.uk/consultations/code-of-audit-practice-consultation)

Our response to the consultation

Grant Thornton responded to the consultation on 5 March 2024. In summary, we recognise the need for change, and support the proposals for the introduction of a backstop date of 30 September 2024. The proposals are necessarily complex and involved. We believe that all stakeholders would benefit from guidance from system leaders in respect of:

- the appropriate form of reporting for a backstopped opinion
- the level of audit work required to support a disclaimer of opinion
- how to rebuild assurance in terms of opening balances when previous years have been disclaimed.

We believe that both auditor and local authority efforts will be best served by focusing on rebuilding assurance from 2023/24 onwards. This means looking forwards as far as possible, and not spending 2023/24 undertaking audit work which was not carried out in previous years. We look for guidance from systems leaders to this effect. The timing of the general election has delayed the implementation of these proposals. Once we have a further understanding of the new government's intentions, and its priorities across the sector we will discuss this with you.

Impact on Pension Funds

Pension fund accounts fall within the scope of the outlined backstop legislation. Where an Administering Authority accounts may be required to be backstopped this would not automatically apply to the Pension Fund accounts. We expect to be able to issue a separate opinion on the Fund accounts where the Pension Fund audit can be completed.

Update

Following the general election the Minister of State for Housing, Communities and Local Government has proposed backstop legislation which will revise the date of the first backstop for financial years up to and including 2022-23 to December 13 2024 and 28 February 2025 for the 2023/24 financial year. As audits for the administering authority and pension fund are up to date and 2023/24 audits are due to be completed in the final quarter of the 2024 calendar year we do not expect this to apply but are reporting for the Fund and Council's information.

National context – Triennial Valuation

Triennial valuations for local government pension funds have been published. These valuations, which are as at 31 March 2022, provide updated information regarding the funding position of the Pension Fund and set employer contribution rates for the period 2023/24 – 2025/26. For the Pension Fund, the valuation was undertaken by Mercer and showed that the solvency funding level is 99% The results of the latest triennial valuation are reflected in Note 40 to the financial statements. These valuations also provide updated information for the calculation of the net pension liability on employer balance sheets.

