

# External Audit Progress Report Shropshire & Wrekin FRA

Year ended 31 March 2021

29 July 2021



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# 1. Executive summary

The purpose of this report is to provide members of the Committee with a concise update of progress against key areas of the financial statements audit. However, given the extended financial reporting deadline and operational challenges stemming from pandemic working conditions we are not yet in a position to produce a full Audit Findings Report. We provide a summary of our progress and anticipated timelines within this section.

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## High level summary of progress to date

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Significant work has been carried out to date. We have executed our audit testing strategy in all areas of the file and received a substantial amount of supporting documentation in relation to our program however outstanding queries at this point are typically more complex and can take longer to resolve. A more detailed breakdown of issues noted and outstanding queries is provided within the body of the report. Whilst we currently anticipate being able to complete the audit ahead of the statutory deadline, there is still work to complete in significant risk areas such as PPE valuations and pensions liabilities, some of which is outside of the control of the finance and audit teams, and therefore this report should not be taken as providing a guarantee over timelines. We will remain in frequent contact with management and Those Charged with Governance with regards to progress.

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## Expected timeline

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- 29<sup>th</sup> July; present progress report and verbal update to Audit Committee
  - Late August; anticipated receipt of completed IAS 19 assurance report in relation to Shropshire County Pension Fund and work through any issues
  - Early – mid September; circulate draft Audit Findings Report (AFR) for agreement with management
  - 23<sup>rd</sup> September; present AFR to Committee
  - 30<sup>th</sup> September; statutory deadline for external audit opinion on financial statements; please note, we will endeavor to complete our VfM work in line with our external audit timeline and all meeting with key stakeholders are anticipated to take place during August and September. However, given the extended format of the report and operational challenges arising from pandemic working conditions it is possible that we may need to complete some report compilation tasks after the financial statements deadline. We will update the Committee further via our Audit Findings Report.. The statutory deadline for conclusion of our VfM work is late November 2021.
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# 2. Progress against significant risks identified

## Risks identified in our Audit Plan

## Commentary

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### ISA 240 revenue/expenditure risk

#### Auditor commentary

As communicated within our audit plan in March 2021, we rebutted the assumed (under ISA 240) risk of fraudulent revenue recognition. We have updated our review upon receipt of the draft financial statements and remain of the view that this risk remains rebuttable.

Per guidance within Practice Note 10, as external auditors within the public sector, we are required to give consideration to whether the risk of fraudulent revenue recognition is more relevant.

At the time of writing, our work on expenditure remains ongoing however we have not yet uncovered any issues pointing to a significant risk in relation to fraudulent expenditure recognition. We will outline progress against the various material expenditure streams later in the report. We have also designed and implemented a comprehensive testing approach to journal entries with a view to detecting any evidence of management override of controls, including within the expenditure population – further details are provided below.

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### Management override of controls

#### Auditor commentary

Our proposed work plan on management override of controls is as follows: We have:

- evaluated the design effectiveness of management controls over journals
- analysed the journals listing and determined the criteria for selecting high risk unusual journals
- using the criteria defined at the above step, selected a sample of journals made during the year and the accounts production stage for appropriateness and corroboration
- gained an understanding of the accounting estimates applied by management and considered their reasonableness

Our review of management's control environment and methodology associated with key estimates does not indicate any issues in this area so far. However, our testing of the samples selected remains ongoing; we will report back to the Committee upon completion of this work via our AFR.

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# 2. Progress against significant risks identified

## Risks identified in our Audit Plan

## Commentary

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### Valuation of PPE (Land & Buildings)

#### Auditor commentary

We have designed a testing strategy based around a review of large balances and any items deemed unusual, typically where the value provided by the valuer appears to deviate from expected movements based on national indices. We have noted a general issue whereby the Authority's portfolio appears to move in a different direction from that indicated by national data. We anticipate that there are localised reasons for this and are in dialogue with the valuer to resolve this.

There are also some questions around the Gross Internal Area (GIA) information being used in some of the calculations which we have asked the valuer and Authority staff to help us resolve.

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### Valuation of Pension liabilities

#### Auditor commentary

This is typically an area which takes longer to resolve as, in addition to our work on the Firefighter's Schemes administered by the Authority itself, our conclusion is contingent on receipt of the IAS 19 assurance report provided by the auditors of Shropshire County Pension Fund. At the time of writing, the latter remains outstanding. However, we are aware of an early issue which has been identified whereby a significant understatement of one of the assets held by the Fund has been identified, translating to a material overstatement of the net LGPS liability in the Authority's accounts.

From discussions with finance staff we are aware that the Authority is seeking an updated report and will post adjusting entries accordingly. For clarity, this issue stems from a combination of the timing differences inherent in production of pension fund draft accounts and the unusually large rebound of financial markets following the pandemic related fall in values in the prior period. We do not believe this to be indicative of a control issue at either the Fund itself or the Authority.

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# 3. Summary of key issues arising from audit work so far and other areas of focus

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## Summary of key issues

- As referred to previously, we anticipate a material adjustment in relation to the net LGPS liability. This will result in an improved liability position on the Authority's balance sheet;
- We have identified a number of classification issues, the largest in relation to short term investments incorrectly classified as Cash & Cash Equivalents. We anticipate the inclusion of a Prior Period Adjustment note in relation to this;
- Per the report, completion of our work on PPE valuations is contingent on receipt of responses from the valuer.

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## Value for Money conclusion

As reported to you in our Audit Plan, we had not identified any significant areas of focus at planning stage. We continue to update our understanding of the entity's arrangements and external environment and will shift our focus to this area of work once we are able to close down our external audit opinion work. We hope to be able to report to you fully on this in September, however the statutory deadline for this work has now moved to November so circumstances may dictate that it is prudent to take advantage of that wider time frame. We will update the Committee either way in the September meeting.

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## Other Information

We are required to report to you on the "other information" (namely the governance statement and related narrative reports which precede the financial statements) produced by the Authority, specifically in relation to its internal consistency with financial disclosures and compliance with the appropriate reporting framework.

We currently have one query outstanding with finance staff on this area of work, however we do not anticipate that there will be any significant findings to report. We will update the Committee further in September.



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