The Audit Findings for Shropshire and Wrekin Fire and Rescue Authority

Year ended 31 March 2021

Shropshire and Wrekin Fire and Rescue Authority

24 September 2021

Contents

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

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, as required by International Standard on Auditing (UK) 260. Its contents will be discussed with management and the Standards, Audit and Performance Committee.

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Shropshire and Wrekin Fire and Rescue Authority ('the Authority') and the preparation of the Authority'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 Authority's financial statements give a true and fair view of the financial position of the Authority 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), Narrative Report and Pension Fund Account, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was completed remotely during June-September. Our findings are summarised on pages 5 to 19. We have identified one adjustment to the financial statements that have resulted in a £0.4m adjustment to the authority's Comprehensive Income and Expenditure Statement and a number of disclosure and classification adjustments which did not have a net impact on the Authority's underlying financial performance. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

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, subject to completion of the matters listed on page 4.

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.

Audit procedures have resulted in the inclusion of two prior period adjustments within the financial statements – further details are set out in the body of the report.

Our anticipated audit report opinion will be unmodified.

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 authority 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 authority'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 authority'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 work, we considered whether there were any risks of significant weakness in the authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. At the planning stage, we did not identify any risks or apparent weaknesses in arrangements. Our work on this risk is underway and an update is set out in the value for money arrangements section of this 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.

We expect to certify the completion of the audit upon the completion of our work on the authority's VFM arrangements, which will be reported in our Annual Audi tor's report in December 2021.

Significant Matters

We did not encounter any significant difficulties or identify any significant matters arising during our audit. A number of disclosure items, misclassification changes and audit adjustments were noted during the project – these are outlined at Appendices A onwards.

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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 and the Standards, Audit & Performance 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.

Audit approach

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

- An evaluation of the Authority's internal controls environment, including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

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 following the Standards, Audit & Performance Committee meeting on 24 September 2021. These outstanding items include:

- receipt of management representation letter; and
- receipt of IAS 19 assurance report from the auditors of Shropshire County Pension Fund and completion of related audit procedures;
- completion of internal quality review procedures on our work on the property, plant and equipment valuation estimate; and
- review of the final set of financial statements.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff. As highlighted within our audit plan presented to the Standards, Audit and Performance Committee on 22 April 2021, the impact of the pandemic has meant that both your finance team and our audit team faced audit challenges again this year, such as remote access to financial systems, video calling, verification of the completeness and accuracy of information provided remotely produced by the entity and similar challenges relating to pandemic working conditions.

Signed :

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 on 22 April 2021.

We detail in the table adjacent our determination of materiality for Shropshire and Wrekin Fire and Rescue Authority.

	Authority Amount (£k)	Qualitative factors considered
Materiality for the financial statements	490	We determined that total expenditure in year was the most appropriate benchmark. Our risk assessment led us to set materiality at approximately 2% of prior year gross expenditure. We did not identify a requirement to change this upon receipt of draft financial statements.
Performance materiality	367.5	Based on the internal control environment at the Authority we determined that 75% of headline materiality would be an appropriate benchmark.
Trivial matters	24.5	We decided that matters below 5% of materiality were trivial.
Materiality for senior officer's remuneration	50	We identified senior management remuneration as a sensitive item and set a lower materiality of £50,000.

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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 override of controls Under ISA (UK) 240, there is a non-rebuttable presumed risk that management override of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk of material misstatement.	We have: - 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 with regard to corroborative evidence; and - evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. Our work in this area did not identify any issues we wish to draw to the attention of the Committee. No instances of management override of control were identified.

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2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Improper revenue recognition 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. As external auditors in the public sector, we are also required to give regards to Practise Note 10, which interprets the ISA in a public sector context and directs us to consider whether the assumption also applies to expenditure.	At the planning stage, we considered the risk factors set out in ISA 240 and the nature of the revenue streams at the Authority. We determined that the risk of fraud arising from revenue and expenditure recognitions could be rebutted because; - there is little incentive to manipulate revenue and expenditure recognition; - Opportunities to manipulate revenue and expenditure recognition are very limited; and - The culture and ethical frameworks of local authorities including Shropshire and Wrekin Fire and Rescue Authority, mean that all forms of fraud are seen as unacceptable. Therefore, at the planning stage, we did not deem this to be a significant risk for the Authority. We have continued to update our risk assessment throughout the audit and have not noted any reason to change this assessment.
Valuation of land and buildings The Authority revalues its land and buildings on an annual basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£26m in the current year) and the sensitivity of this estimate to changes in key assumptions. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: - Evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; - Evaluated the competence, capabilities and objectivity of the valuation expert, - Written to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the CIPFA code are met; - Challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding; and - Tested revaluations made during the year to see if they had been input correctly into the Authority's balance sheet. Our audit work is substantially complete, pending completion of internal file compilation and quality review tasks. However, at this stage we have not identified any reporting issues which we wish to bring to the attention of the Committee.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of the pension fund net liability 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 (£270m in the Authority's balance sheet) 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 have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Authority's pension fund net liability as a significant risk.	We have; ▪ Updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated 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 Authority's pension fund valuation; ▪ Assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; ▪ Tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; ▪ Undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and Our audit work is substantially complete, pending completion of internal file compilation and quality review tasks. We are currently awaiting assurances from the auditor of Shropshire County Pension Fund as to the controls surrounding the validity and accuracy of membership data, contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. However, at this stage we have not identified any reporting issues which we wish to bring to the attention of the Committee.

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 (PPE) valuations – £26m	Other land and buildings comprises specialised assets relating to the provision of the Fire Service, 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 authority has engaged an external valuer to complete the valuation of properties as at 31 March 2021. The full portfolio is revalued on an annual basis, meaning there is no risk in relation to assets not revalued. In order to arrive at the estimate, management place reliance on the work of their expert valuer, who is a RICS qualified practitioner and carried out the valuations in line with the required standards and guidelines, including the latest advise in relation to the Covid 19 pandemic. . The total year end valuation of land and buildings was £26m, a net increase of £308k from 2019/20 (after accounting for additions and reversal of depreciation charged).	In response to the risk of material misstatement stemming from this estimate, we have reviewed the competence and capabilities of management's expert. We have also tested the completeness and accuracy of the data supplied to the valuer, the appropriateness of methodology employed and consistency with national indices via comparison with the report provided by Gerald Eve as auditor's experts. In response to the latter point, we did note a variance from the wider regional trend per our auditor's expert. However, discussions with the valuer determined that management's expert used a more localised set of data, specific to the asset types and area which gave comfort that methodology is sufficiently precise. Furthermore, we have tested management's accounting for the valuations and considered the adequacy of disclosures. We are still in the process of closing down our work in this area, subject to internal quality reviews. However, at this point we have not found any reporting issues which we wish to bring to your attention.	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
Valuation of the pension fund net liability Fire Fighter and Local Government Pension Scheme 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 (£270 million in the Authority's 2020/21 balance sheet) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	The Authority's net pension fund liability relates to its participation as a member employer of the various firefighter's schemes and the Local Government Pension Scheme (LGPS). The Authority uses Mercer to provide actuarial valuations of the authority's assets and liabilities derived from these schemes and commissions pensions administration services from Shropshire County Pension Fund. A full actuarial valuation is required every three years for the LGPS and every four years for the Firefighter's schemes. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been an approximate £38m net actuarial loss during 2020/21, principally arising from changes in underlying actuarial assumptions and movements in year on assets held by Shropshire County Pension Fund on behalf of the Authority (in relation to the LGPS liability only).	We have; • Completed an assessment of management's expert • Uses PwC as auditors expert to assess the methodology of the actuary and assumptions employed by them – further challenges have been made directly to the actuary where further information was required on individual assumptions; • Assessed the completeness and accuracy of the underlying information provided to the actuary and used to determine the estimate • Sought assurances from the auditors of Shropshire County Pension Fund around the controls in place at the administering authority Our work in this area is substantially complete, however we await receipt of the IAS 19 assurance letter referred to above from the auditors of Shropshire County Pension Fund so that we can gain assurance and also complete all of our audit procedures required. However, we have no indication at this point that there are underlying issues with the controls in place at the pension fund which would impact the authority's financial statements. During the audit process, the auditors of Shropshire County Pension Fund notified us of an adjusting entry relating to the understatement of assets held by the Fund. This relates to hard to value assets which are often valued retrospectively due to their complexity. At year end, this can result in a position where the March balances per pension fund draft accounts are based on December valuations adjusted for known cash movements. Given recent market volatility there has been some significant valuation changes noted across the sector, as is the case with the Pension Fund. We do not consider this to be evidence of a control weakness and the net effect is to reduce the Fund's net pension liability by £416k. We will update management on the outcome of IAS 19 assurances once we have received the report.	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

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2. Financial Statements - Internal Control

Assessment	Issue and risk	Recommendations
Deficiency	• During payroll testing, we noted an issue with variances between the establishment reports (listing all staff on the payroll in a given month) used by Human Resources and those used by Finance. This led to issues performing substantive analytical procedures to assess completeness of payroll expenditure. There is also a risk that management use incorrect information to assess the appropriateness of the level of pay costs against total staff paid.	• We recommend that management investigate the source of this issue and ensure that accurate establishment information is used for consideration of completeness of expenditure, as well as to aid the efficiency of external audit procedures. **Management response** • Work is already underway to confirm the source data for the establishment report drawn from Resourcelink; once completed this will be reconciled with Payroll reports to ensure consistency going forward.

Please note, the above list is based on our program of work and not intended to be exhaustive. Had performed more extensive procedures on internal control, we might have identified more deficiencies to be reported.

Assessment

- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

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 Standards, Audit & Performance Committee and have not been made aware of any instances of material fraud.
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 Authority, which is included in the Committee papers.

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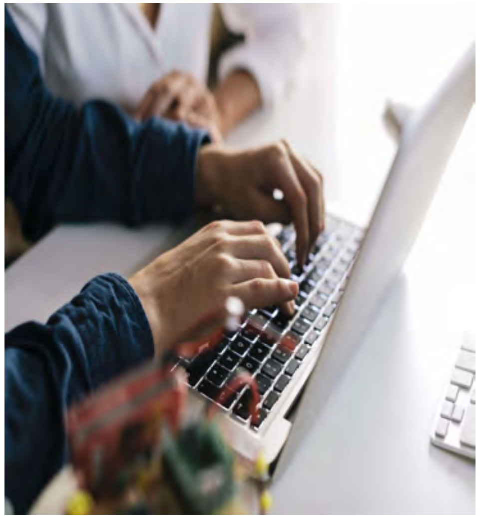
2. Financial Statements - other communication requirements



Issue	Commentary
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Authority's banking and investment management partners. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.
Accounting practices	We have evaluated the appropriateness of the authority's accounting policies, accounting estimates and financial statement disclosures. We noted a small number of issues in relation to disclosures; these are summarised in Appendix C.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided.

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2. Financial Statements - other communication requirements

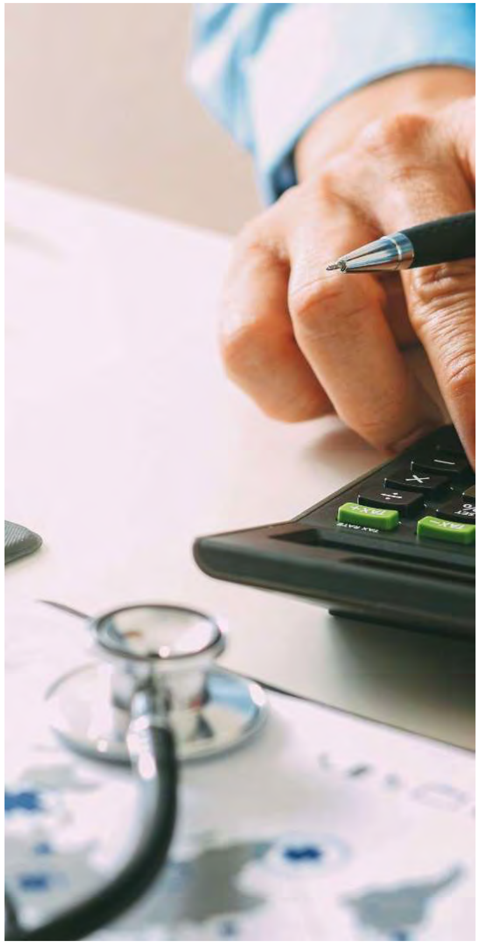
Our responsibility

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 authority 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 Authority'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 Authority 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 Authority and the environment in which it operates • the Authority's financial reporting framework • the Authority'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, Narrative Report and Pension Fund Account, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies were identified. We plan to issue an unmodified opinion in this respect.
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. We have nothing to report on these matters.



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2. Financial Statements - other responsibilities under the Code

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. We anticipate that group instructions in this respect will not be issued until later in the year. However, based on our understanding of the process from previous years our expectation is that the Authority will be below the threshold and we will therefore not be required to carry out detailed procedures.
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2020/21 audit of Shropshire and Wrekin Fire and Rescue Authority in the audit report, due to incomplete VFM work (in response to the extended statutory deadline), and delays to issuance of WGA group instructions as described above.

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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 authority'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 by 31 December. 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 risks of significant weakness in the authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. Per the table below, we have not identified any such risks.

Risk of significant weakness	Work performed to date
None noted.	We have continued to update our understanding and risk assessment of the Authority's governance, performance monitoring and financial management arrangements as well as the external environment in which it operates. At this point, as at the planning stage, our assessment is that the Authority is in a robust financial position with no apparent issues in relation to governance or management and we have no recommendations to make. Once we have completed our VFM work we will provide extended commentary on our findings in the Auditor's Annual Report.

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. We have complied with the Financial Reporting authority'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. Please note, no non-audit services were provided to the Authority; fees detailed are inclusive of provision of external audit services only.

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)

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Appendices

A. Action plan – Audit of Financial Statements

We have identified two recommendations for the Authority 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
Medium – Limited Effect on financial statement	During payroll testing, we noted an issue with variances between the establishment reports (listing all staff on the payroll in a given month) used by Human Resources and those used by Finance. This led to issues performing substantive analytical procedures to assess completeness of payroll expenditure. There is also a risk that management use incorrect information to assess the appropriateness of the level of pay costs against total staff paid.	We recommend that management investigate the source of this issue and ensure that accurate establishment information is used for consideration of completeness of expenditure, as well as to aid the efficiency of external audit procedures. Management response Work is already underway to confirm the source data for the establishment report drawn from Resourcelink; once completed this will be reconciled with Payroll reports to ensure consistency going forward.
Low – Best practice	We identified an above trivial accrual relating to outstanding compensation provided for in 2013. Our testing noted that there had been no movements on this balance since 2017, suggesting that further claims are unlikely. This suggests that creditors may be overstated by a non-trivial amount.	We recommend that the Authority write back this balance. Management response This will be done

Controls

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

B. Follow up of prior year recommendations

We identified the following issues in the audit of Shropshire and Wrekin Fire and Rescue Authority's 2019/20 financial statements, which resulted in two recommendations being reported in our 2019/20 Audit Findings report. We are pleased to report that management have implemented all of our recommendations.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	Since the move to the new finance system during the 2018/19 accounting period, the way in which the finance team produces reports for the purpose of sample selection has changed. Currently, Aggreso posts transactions on a cumulative basis in regard to these accounts and does not match off receipts against open items. Therefore, whilst this will generate a correct closing balances, it can be challenging for external audit to obtain a "clean" balance for sampling purposes. Furthermore, as the level of transactions in these accounts builds up over subsequent years, it may become more challenging for the finance team to track outstanding balances and perform balance sheet reconciliations to ensure the balance is correct. We therefore recommended that management further explore the reporting capabilities of the finance system in order to identify a straightforward way to produce clean "memo" accounts for the purposes of audit and balance sheet reconciliations.	During the 2020/21 audit, the audit team were provided with balance sheet populations which included only outstanding items and reconciled to the general ledger. We are therefore satisfied that management have implemented this recommendation.
✓	As part of our work on the going concern assumption, we noted that the Authority only produced a cash flow forecast for the next financial year. There is a risk that longer term factors both locally and nationally are not taken into account during the Authority's decision making and budgeting process.	As noted earlier in the report, audit requirements in this area have changed. Furthermore, we are satisfied that the information provided by management in this area this year is sufficiently detailed to gain the required assurance.

Assessment

✓ Action completed

X Not yet addressed

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C. 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.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Audit testing identified that collection fund creditors and debtors were overstated (as a result of a netting off issue) and that the Authority's share of the related NDR appeals provision for debtors had incorrectly been included within the creditors balance rather than separately as a provision. Detailed review determined that this error had been made in prior periods also. A prior period adjustment note was prepared detailing this for the financial statements. The adjusting entries for 20/21 and 19/20 are listed below. Please note, in line with accounting standards a third balance sheet is required to be presented in order to illustrate the effect on the opening balances of the comparator year.			
2020/21 adjusting entry		DR Creditors 291 CR Debtors 116 CR Provisions 175	N/a – balance sheet only
2019/20 adjusting entry		DR Creditors 672 CR Debtors 489 CR Provisions 183	N/a – balance sheet only
2019/20 opening balance adjustment		DR Creditors 588 CR Debtors 412 CR Provisions 176	N/a – balance sheet only
During the audit we were notified by the auditors of Shropshire County Pension Fund of a material misstatement identified in the Fund's financial statements. This was an understatement of assets as a result of a combination of the timing difference between financial reporting dates and valuation dates for hard to value financial assets and the bullish financial markets following a slump in the 19/20 financial year. We therefore do not deem this to be indicative of a control weakness at the Fund or the Fire Authority. The impact is to reduce the net pension fund liability in the Authority's accounts as below. This impacts the 20/21 financial year only.			
2020/21 adjusting entry	CR Other comprehensive income 416	DR Net pension liability 416	(416)
Overall impact	(416)	416	(416)

C. Audit Adjustments (continued)

Impact of misclassifications

The table below lists the impact of amendments to the classification of certain items within the financial statements requiring adjustments to the underlying general ledger and prior periods.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Under the Authority's accounting policy, cash and cash equivalents are defined as on call accounts or balances with a maturity date of less than 3 months after acquisition. Audit testing identified material balances which had been incorrectly classified as cash and cash equivalents under this policy. Detailed review determined that this error had been made in prior periods also. A prior period adjustment note was prepared detailing this for the financial statements. The adjusting entries for 20/21 and 19/20 are listed below. Please note, in line with accounting standards a third balance sheet is required to be presented in order to illustrate the effect on the opening balances of the comparator year.			
2020/21 adjusting entry		DR ST investments 15,000 CR Cash 15,000	N/a – balance sheet only
2019/20 adjusting entry		DR ST investments 9,000 CR Cash 9,000	N/a – balance sheet only
2019/20 opening balance adjustment		DR ST investments 11,970 CR Cash 11,970	N/a – balance sheet only
Audit testing identified a balance of £393k within creditors which should have been classified as grants received in advance. Management have agreed to make this amendment within the financial statements. As above, there is no net impact on the Authority's financial performance. The relevant adjusting journal entries are shown below. This is a 20/21 issue only.			
2020/21 adjusting entry		DR Creditors 393 CR Grants RIA 393	N/a – balance sheet only
Audit testing identified that the proportion of the debit to the CIES in relation to the Collection Fund adjustment account had been netted off authority tax income only as opposed to apportioned across authority tax and NDR based on relative collection fund positions. The correcting entries are shown below. This is a reclassification of items in the CIES so therefore has no net impact on the Authority's financial performance. This relates to 2020/21 only.			
2020/21 adjusting entry		N/a – CIES only	DR NDR income 811 CR Precept income 811
Overall impact	£0	£0	£0

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C. Audit Adjustments (continued)

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	Auditor recommendations	Adjusted?
We noted a small number of internal inconsistencies between debtor and creditor balances on the Statement of Financial Position and the individual disclosure notes. This adjustment does not impact the reporting of the authority's finances in the prime financial statements.	We recommend that management ensures that the debtor and creditor balances shown in disclosure notes are consistent with the Statement of Financial Position.	Yes
We noted a small number of amendments required to Benefits in Kind and Pensions Contributions within the senior officer remuneration disclosures. This adjustment does not impact the reporting of the authority's finances in the prime financial statements.	We recommend that management ensures that the Benefits In Kind and Pension Contributions within the senior officer remuneration disclosures are consistent with supporting records and consistent with the CIES.	Yes
We noted some amendments required on the capital commitments table and related narrative. Amendments were agreed with management.	We recommend that management make the required adjustments to the capital commitments note.	Yes
We noted an inconsistency between the way precept and NDR income were disclosed between the CIES and note 6. An adjustment was agreed with management. This adjustment does not impact the reporting of the authority's finances in the prime financial statements.	We recommend that management make the disclosure adjustments required in Note 6 of the financial statements.	Yes
A signage error was noted on the face of the CIES resulting a material inconsistency between the CIES and underlying notes such as the MiRS and EFA. An adjustment was agreed with management. This adjustment does not impact the reporting of the authority's finances in the prime financial statements.	We recommend that management make the required adjustments so to report the position accurately and in line with supporting records.	Yes
We noted a variance between the auditor's remuneration disclosures and the amounts agreed per our 20/21 audit plan. We agreed with management that this would be updated to reflect the agreed 2020/21 fee.	We recommend that management make the required adjustments to the auditor remuneration note.	Yes

C. Audit Adjustments (continued)

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	Auditor recommendations	Adjusted?
We noted an inconsistency between the Expenditure and Funding Analysis disclosure note and the CIES, along with a change to clarify the impact of IAS 19 adjustments.	We recommend that management ensures that the EFA and CIES are consistent and relevant clarifications re IAS 19 are made.	Yes
We noted an amendment was required to the financial instruments disclosure to correctly reflect cash and cash equivalents as current rather than long term.	We recommend that management adjusts the disclosure accordingly.	Yes
We noted that the Authority's disclosures in respect of the impacts of IFRS 15 on accounting for contracts was lacking in detail.	We do not deem this to be a material issue for the current period – we recommend that management liaise with sector peer organisations and look at ways to improve the disclosure in the coming year.	No

C. Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2020/21 audit which have not been made within the final set of financial statements. The Standards, Audit and Performance Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Per Appendix A, £38k accrual noted in respect of compensation from 2013. Audit team's view is that this represents an overstatement of liabilities.	(38)	38.	(38)	Not material – management have agreed to amend in the coming year.
We noted that the Authority does not accrue for PWLB interest. In practice, the amount charged to the CIES is broadly correct however, owing to timing differences this results in a non-trivial understatement of liabilities.	Trivial	(47)	Trivial	Trivial impact on CIES – non material impact on balance sheet
Overall impact	(38)	(9)	(38)	

Impact of prior year unadjusted misstatements

There were no unadjusted misstatements in the prior period and therefore no cumulative impact in the current year.

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D. Fees

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Audit fees	Proposed fee	Final fee
Fire Authority Audit	36,716	36,716
Total audit fees (excluding VAT)	£36,716	£36,716

Details of variations in final fees from the proposed fee per the audit plan

- fees per financial statements; £26k
- Reconciling item; additional fees per audit plan; £11k
- total fees £37k per table

Reconciliation is to the draft financial statements – per Appendix C, we understand that the disclosure will be updated in the final version of the financial statements to reflect the final agreed fee.

No non-audit or audited related services have been undertaken for the Authority.

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