

# The Audit Findings for Shropshire and Wrekin Fire & Rescue Authority.

**Year ended 31 March 2017**

14 September 2017

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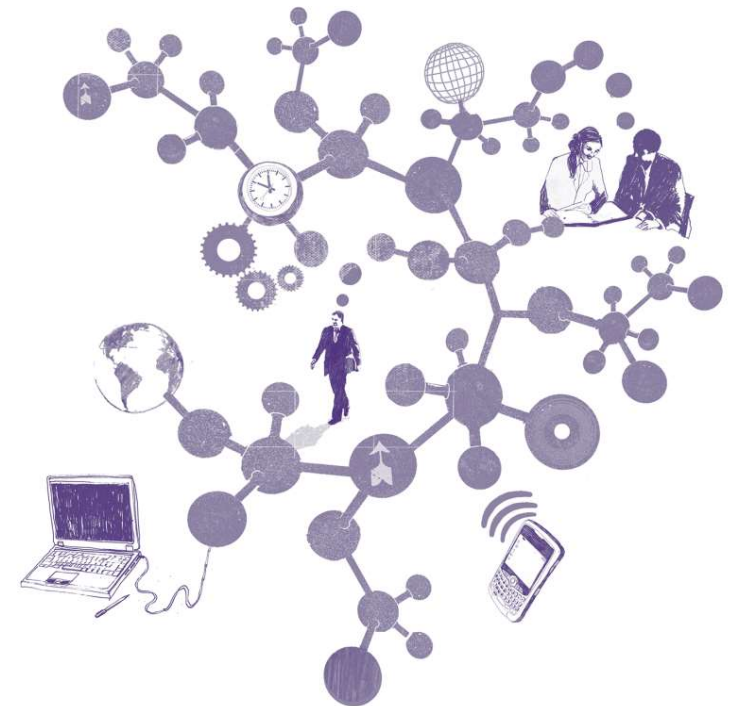
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14 September 2017

Dear Members of the Audit & Performance Management Committee

**Audit Findings for Shropshire and Wrekin Fire & Rescue Authority for the year ending 31 March 2017**

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of Shropshire and Wrekin Fire & Rescue Authority, the Audit & Performance Management Committee), to oversee the financial reporting process, as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland) ('ISA (UK&I)'), 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 primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. 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 any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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 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.

Yours sincerely

Mark Stocks

**Chartered Accountants**

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# Contents

Section	Page
1. Executive summary	4
2. Audit findings	8
3. Value for Money	22
4. Fees, non-audit services and independence	25
5. Communication of audit matters	27

## Appendices

- A Action plan
- B Audit opinion

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# Section 1: Executive summary

**01. Executive summary**

**02. Audit findings**

**03. Value for Money**

**04. Fees, non audit services and independence**

**05. Communication of audit matters**

## Purpose of this report

This report highlights the key issues affecting the results of Shropshire and Wrekin Fire & Rescue Authority ('the Authority') and the preparation of the Authority's financial statements for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under 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 whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. .

We are also required to consider other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report, whether it is consistent with the financial statements, apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Authority acquired in the course of performing our audit; or otherwise misleading.

We are required to carry out sufficient work to satisfy ourselves on whether the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion'). Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Authority or brought to the public's attention (section 24 of the Act);
- written recommendations which should be considered by the Authority and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act).

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

## Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 26<sup>th</sup> April 2017.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion
- Whole of Government Accounts

We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable.

## Key audit and financial reporting issues

### Financial statements opinion

We have identified no adjustments affecting the Authority's reported financial position. The draft financial statements for the year ended 31 March 2017 recorded net expenditure of £20,035k; the audited financial statements show net expenditure of £20,035k.. We have also recommended a number of adjustments to improve the presentation of the financial statements.

The key messages arising from our audit of the Authority's financial statements are:

- The draft accounts and working papers were of good quality.
- Finance staff responded efficiently to all audit queries.
- There is estimation uncertainty in regards to the valuation of land and buildings. We have concluded that since the last full revaluation at 31 March 2015, the fair value of assets has increased by a non-material amount when taking in to account national statistics and indices. Further information has been included in section two of the report. We have recorded this in unadjusted misstatements on page 20. The error does not impact on the useable reserves available to the authority

Further details are set out in section two of this report.

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B).

### Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes if the AGS and Narrative Report is misleading or inconsistent with the information of which we are aware from our audit.

Based on our review of the Authority's Narrative Report and AGS we are satisfied that they are consistent with the audited financial statements. We are also satisfied that the AGS meets the requirements set out in the CIPFA/SOLACE guidance and that the disclosures included in the Narrative Report are in line with the requirements of the CIPFA Code of Practice.

## Controls

### Roles and responsibilities

The Authority's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

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 any control weaknesses, we report these to the Authority.

### Findings

Our work has not identified any control weaknesses which we wish to highlight for your attention.

### **Value for Money**

Based on our review, we are satisfied that, in all significant respects, the Authority had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Further detail of our work on Value for Money are set out in section three of this report.

### **Other statutory powers and duties**

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

### **The way forward**

Matters arising from the financial statements audit and our review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Head of Finance.

We have made one recommendation, which is set out in the action plan at Appendix A. Recommendations have been discussed and agreed with the Head of Finance and the finance team.

### **Acknowledgement**

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

**Grant Thornton UK LLP**  
**September 2017**

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## Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters



# Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £455k (being 2% of gross revenue expenditure in the prior period). We have considered whether this level remained appropriate during the course of the audit and have revised our overall materiality based on the 2016/17 financial statements to £402k (being 2% of gross revenue expenditure in 2016/17).

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £20k as adjusted from the audit plan for the change in materiality.

We have identified the following items where separate materiality levels are appropriate.

Balance/transaction/disclosure	Explanation	Materiality level
Related party transactions.	Due to the sensitive nature of these, however individual misstatements will also be evaluated with reference to how material they are to the other party.	£20,000
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£20,000

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

# Audit findings against significant risks

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p><b>The revenue cycle includes fraudulent transactions</b></p> <p>Under ISA (UK&amp;I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>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 risk factors set out in ISA240 and the nature of the revenue streams at Shropshire and Wrekin Fire &amp; Rescue Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition;</li> <li>• opportunities to manipulate revenue recognition are very limited; and</li> <li>• the culture and ethical frameworks of local authorities, including Shropshire and Wrekin Fire &amp; Rescue Authority, mean that all forms of fraud are seen as unacceptable.</li> </ul>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
<p><b>Management over-ride of controls</b></p> <p>Under ISA (UK&amp;I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<ul style="list-style-type: none"> <li>• review of entity controls</li> <li>• review of journal entry process and selection of unusual journal entries for testing back to supporting documentation</li> <li>• review of accounting estimates, judgements and decisions made by management</li> <li>• review of unusual significant transactions.</li> </ul>	<p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our detailed testing of journal entries has not identified any significant issues.</p> <p>Our review of the journals control environment did identify that officers within the finance team can both process and authorise journals however we did not find any evidence of this occurring in practice, therefore demonstrating adequate segregation of duties in place.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK&I) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

# Audit findings against significant risks continued

We have also identified the following significant risk of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p><b>Valuation of pension fund net liability</b></p> <p>The Authority's pension fund net liability (LGPS and FFPS), as reflected in its balance sheet, represents a significant estimate in the financial statements.</p>	<ul style="list-style-type: none"><li>Identifying the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessing whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement.</li><li>Review of the competence, expertise and objectivity of the actuary who carried out the Authority's pension fund valuation.</li><li>Gaining an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made.</li><li>Review of the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary.</li></ul>	<p>Our audit work has not identified any issues in respect of the valuation of the pension fund net liability.</p>

# Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Employee remuneration</b>	<p>Payroll expenditure represents a significant percentage of the Authority's gross expenditure.</p> <p>We identified the completeness of payroll expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> <li>Employee remuneration accruals understated (Remuneration expenses not correct)</li> </ul>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>documented our understanding of processes and key controls over the transaction cycle</li> <li>undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding</li> <li>performed a review of monthly trend analysis of payments to identify and investigate any unusual or irregular movements</li> <li>we have reviewed the payroll reconciliation to ensure that information can be agreed to the ledger and to the financial statements</li> <li>we have performed substantive testing of employee remuneration transactions for accuracy.</li> </ul>	<p>Our audit work has not identified any further significant issues in relation to the risk identified</p>

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

# Audit findings against other risks continued



Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Fire Pensions Benefits Payable</b>	<p>Benefits improperly computed / Claims liability understated</p> <p>Payments to retiring officers are low in volume but high in value and the Authority is reliant on effective controls to ensure the payments made are valid and accurate.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• We have documented our understanding of processes and key controls in place around the accounting for Fire Fighters Pensions.</li> <li>• We have carried out a walkthrough test to confirm the operation of controls is in line with our documented understanding.</li> <li>• We have agreed pension disclosures in the financial statements to supporting evidence.</li> <li>• We have tested a sample of Fire Fighters pension payments covering the period 1<sup>st</sup> April 2016- 31<sup>st</sup> March 2017 to ensure they have been accurately accounted for and in the correct period.</li> </ul>	<p>Our audit work has not identified any further significant issues in relation to the risk identified</p>
<b>Operating expenses</b>	<p>We identified the completeness of non- pay expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> <li>• Creditors understated or not recorded in the correct period (Operating expenses understated)</li> </ul>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• We have documented our understanding of processes and controls in place around the accounting for operating expenses.</li> <li>• We have carried out a walkthrough test to confirm the operation of controls were in line with our documented understanding</li> <li>• We have documented the processes in place for month and year end accruals.</li> <li>• We have performed cut off testing of creditors figure disclosed at 31 March 2017.</li> <li>• We have performed testing of a sample of operating expenses to ensure they have been accurately accounted for and in the correct period.</li> </ul>	<p>Our audit work has not identified any further significant issues in relation to the risk identified</p>

# Significant matters discussed with management


	Significant matter	Commentary
1.	<p><b>Valuation of land and buildings</b></p> <p>The Authority have a policy of performing a full revaluation of land and buildings every 5 years. In the interim, an impairment review is undertaken and advice sought from the valuer at Shropshire Council that there has not been a material movement in the value of assets that would otherwise warrant a revaluation.</p>	<p>In the prior year we reported to those charged with governance that there was estimation uncertainty in that buildings could potentially be undervalued by a non-material amount if we took account of the increase in build costs as advised by the valuer and supported by national statistics compiled by Gerald Eve.</p> <p>This year, although the impairment review stated that there had been no increase in build costs, the national statistics indicated that assets may be undervalued, and that the value could be material to the 2016/17 financial statements.</p> <p>Therefore, it was agreed that a desktop valuation exercise would be carried out in order to provide us with reasonable assurance and appropriate audit evidence that assets were not materially misstated.</p> <p>The conclusion of this exercise was that land and buildings are potentially understated by £388k. The Authority has decided not to adjust this error and therefore we have included it as an unadjusted misstatement. We request that the authority adjust for this amount or provide us with representations as to why it is not adjusting the 2016/17 financial statements.</p> <p><b>Management response</b></p> <p>Management have proposed not to adjust on the basis that the potential understatement is not material to the financial statements and will therefore not impair a users understanding of the accounts.</p>

# Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Authority's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<b>Revenue recognition</b>	<ul style="list-style-type: none"> <li>Activity is accounted for in the year it takes place, not simply when cash payments are made or received.</li> <li>Interest receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.</li> <li>Where income (which includes council tax and rates income) has been recognised but cash has not been received, a debtor for the relevant amount is recorded in the Balance Sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.</li> </ul>	<p>We consider that:</p> <ul style="list-style-type: none"> <li>The accounting policy for revenue recognition is appropriate under the relevant accounting framework</li> <li>The disclosure of the accounting policy is adequate and prevalent in the financial statements</li> <li>Benchmarking against common industry practice has deemed the policy to be in line with similar organisations</li> <li>Testing performed of revenues has not identified any issues in the policy application</li> </ul> <p>Therefore, we have not identified any issues that we would like to bring to your attention.</p>	
<b>Judgements and estimates</b>	<ul style="list-style-type: none"> <li>Key estimates and judgements include: <ul style="list-style-type: none"> <li>Useful life of PPE and classification of fire premises as specialised or non-specialised</li> <li>Accruals</li> <li>Valuation of pension fund net liability</li> <li>Valuation of land and buildings.</li> </ul> </li> </ul>	<p>We consider that:</p> <ul style="list-style-type: none"> <li>The accounting policies for areas of key estimate and judgement are adequately disclosed.</li> <li>The extent of management judgement involved in relation to the valuation of the defined benefit pension fund is limited and therefore increases objectivity and reduces the risk of management override of controls.</li> <li>Testing performed in relation to accruals and depreciation has not identified any issues.</li> <li>As stated above, our audit procedures have identified a non-material uncertainty with regard to the valuation of the FRA's fixed assets.</li> </ul>	

## Assessment

 Marginal accounting policy which could potentially attract attention from regulators

 Accounting policy appropriate but scope for improved disclosure

 Accounting policy appropriate and disclosures sufficient

# Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
<b>Going concern</b>	<p>Management at the Authority have a reasonable expectation that the services provided by the Authority will continue for the foreseeable future. Members concur with this view.</p> <p>For this reason, the Authority continue to adopt the going concern basis in preparing the financial statements.</p>	We have reviewed the Authority's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2016/17 financial statements.	●
<b>Other accounting policies</b>	We have reviewed the Authority's policies against the requirements of the CIPFA Code of Practice.	The Authority's accounting policies are appropriate and consistent with previous years.	●

## Assessment

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient



## 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
1.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"><li>We have previously discussed the risk of fraud with the Audit and Performance Management 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.</li></ul>
2.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"><li>From the work we carried out, we have not identified any related party transactions which have not been disclosed.</li></ul>
3.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"><li>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.</li></ul>
4.	<b>Written representations</b>	<ul style="list-style-type: none"><li>A standard letter of representation included unadjusted misstatements identified as a result of audit procedures has been requested from the Authority.</li></ul>
5.	<b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"><li>We requested from management permission to send confirmation requests to various institutions. This permission was granted and the requests were sent. We have now received positive confirmation from all of the institutions.</li></ul>
6.	<b>Disclosures</b>	<ul style="list-style-type: none"><li>Our review found no material omissions in the financial statements.</li></ul>

## Other communication requirements continued

	Issue	Commentary
7.	<b>Matters on which we report by exception</b>	<ul style="list-style-type: none"><li>• We are required to report on a number of matters by exception in a number of areas:</li></ul> <p>We have not identified any issues we would be required to report by exception in the following areas</p> <ul style="list-style-type: none"><li>• If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit</li><li>• The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Authority acquired in the course of performing our audit, or otherwise misleading.</li></ul>
8.	<b>Specified procedures for Whole of Government Accounts</b>	<p>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.</p> <ul style="list-style-type: none"><li>• As the Authority does not exceed the threshold no detailed work is required.</li></ul>

## Adjusted misstatements

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

There were no adjustments made during the audit, other than to disclosure notes.

# Unadjusted misstatements

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

Detail		Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Reason for not adjusting
1	Estimate of the understatement in the valuation of land and buildings not revalued since 31 March 2015	£388 (Deficit/Surplus on revaluation of PPE	£388 (PPE and Revaluation Reserve)	Management have proposed not to adjust on the basis that the potential understatement is not material to the financial statements and will therefore not impair a users understanding of the accounts.

# Misclassifications 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.

Adjustment type		Value £'000	Account reference	Impact on the financial statements
1	Disclosure	£2,182	Financial Instruments	Upon review of the amount of £2,182k disclosed as financial liabilities carried at contract amount, it was established that this includes creditors of a statutory nature which needed to be removed in line with accounting standards as these are not financial instruments. As this was also the case for 2015/16, a comparative figure has been amended and a footnote added to explain the change.
2	Disclosure	£7	Officers Remuneration	We identified minor changes in the disclosure of the former Chief Fire Officer salary and the current Chief Fire Officer pension contributions for the 2016/17 period.
3	Disclosure	N/A	Various notes	We have identified a small number of adjustments to notes in the accounts where casting, narrative or formatting issues have been identified. These have been adjusted and are not considered to be significant.

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## Section 3: Value for Money

01. Executive summary

02. Audit findings

**03. Value for Money**

04. Fees, non-audit services and independence

05. Communication of audit matters

## Background

We are required by section 21 of the Local Audit and Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') to satisfy ourselves that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Authority. The Act and NAO guidance state that for local government bodies, including fire authorities, auditors are required to give a conclusion on whether the Authority has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2016. AGN 03 identifies one single criterion for auditors to evaluate:

*In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.*

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

## Risk assessment

We carried out an initial risk assessment in March 2017 and identified no significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated this to the Audit and Performance Management Committee in our Audit Plan dated 26 April 2017.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any significant risks where we need to perform further work.

### Significant qualitative aspects

AGN 03 requires us to disclose our views on significant qualitative aspects of the Authority's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the three sub-criteria outlined by the NAO. In arriving at our conclusion, our main considerations were:

- The Authority's governance structure and how effective this is in terms of providing the necessary oversight to make informed decisions
- The quality of information produced by the authority and the timeliness of reporting
- Ability to collaborate with partners from cross sectors and more pertinently those within the blue light sector in line with the Home Office agenda

### Overall conclusion

Based on the work we performed, we concluded that:

- the Authority had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources.

The text of our report, which confirms this can be found at Appendix B.

### Recommendations for improvement

We discussed findings arising from our work with management and have proposed recommendation for improvement as follows:

- Currently there is no separate medium term financial strategy, the authority made a conscious decision to remove this document as it was felt that there was too much overlap between this, the service plan and the integrated risk management plan. Therefore, medium term reporting is incorporated in to all these documents at a high level. We recommend that a more detailed medium term financial strategy is prepared.

### Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

### Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

### Any other matters

The Authority reserves analysis currently shows that reserves are strong at over 60% of the revenue budget. Although this reduces over the lifetime of the medium term it remains above 40% for the next two financial years, and only drops to 20% of revenue in 2019/20.

This is sufficient in terms of the reserves available. However, we wish to bring to the attention of members that reserves will reduce from £13.8m to £4.3m by 2019/20. This will provide 'support' for the revenue budget in the short term but the authority will need to consider how it funds capital expenditure as these reserves will have been significantly reduced.



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## Section 4: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

We confirm below our final fees charged for the audit:

**Fees**

	Proposed fee £	Final fee £
Authority audit and Value for Money opinion	28,566	28,566
<b>Total audit fees (excluding VAT)</b>	<b>28,566</b>	<b>28,566</b>

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

**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 Auditing Practices Board's Ethical Standards and confirm that we are independent and are able to express an objective opinion on the financial statements.
- We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

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## Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

# Communication to those charged with governance

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

This document, The Audit Findings, outlines those key issues 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

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Authority's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Authority's key risks when reaching our conclusions under the Code.

It is the responsibility of the Authority to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Authority is fulfilling these responsibilities.

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	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
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	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report, or emphasis of matter		✓
Unadjusted misstatements and material disclosure omissions		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓

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# Appendices

- A. Action Plan
- B. Audit Opinion

# A. Action plan

## Priority

Rec no.	Recommendation	Priority	Management response	Implementation date
1	<p>Currently there is no separate medium term financial strategy, the authority made a conscious decision to remove this document as it was felt that there was too much overlap between this, the service plan and the integrated risk management plan. Therefore, medium term reporting is incorporated in to all these documents at a high level.</p> <p>We recommend that a more detailed medium term financial strategy is prepared.</p>		Officers will expand the financial information contained within the Authority's Service Plan, to incorporate its medium term financial strategy, and accompanying information and context.	<p>January/ February 2018</p> <p>To be included in the Service Plan update taken to the Fire Authority in February 2018</p>

## Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

# B: Audit opinion

We anticipate we will provide the Authority with an unmodified audit report.

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SHROPSHIRE AND WREKIN FIRE AND RESCUE AUTHORITY

We have audited the financial statements of Shropshire and Wrekin Fire and Rescue Authority (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement and the related notes and include the firefighters' pension fund financial statements comprising the Fund Account, the Net Assets Statement] and the related notes 1 to 5. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of the Treasurer and auditor

As explained more fully in the Statement of Responsibilities, the Treasurer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Treasurer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report, and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion on financial statements

In our opinion:  
the financial statements present a true and fair view of the financial position of the Authority as at 31 March 2017 and of its expenditure and income for the year then ended; and  
the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

### Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report, and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the audited financial statements.

### Matters on which we are required to report by exception

We are required to report to you if:  
in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE; or  
we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or  
we have made a written recommendation to the Authority under section 24 of the Act in the course of, or at the conclusion of the audit; or  
we have exercised any other special powers of the auditor under the Act.

We have nothing to report in respect of the above matters.

### Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

#### Respective responsibilities of the Authority and auditor

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 20(1)(c) of the Act to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

#### Scope of the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criteria as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

### Conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, we are satisfied that in all significant respects *the Authority* put in place proper arrangements for securing economy, efficiency and effectiveness in its use of its resources for the year ended 31 March 2017.

### Certificate

We certify that we have completed the audit of the financial statements of the Authority in accordance with the requirements of the Act and the Code of Audit Practice.

Mark Stocks  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

The Colmore Building  
20 Colmore Circus  
Birmingham  
B4 6AT

14 September 2017





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