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Informing the audit risk assessment for Shropshire & Wrekin Fire and Rescue Authority 2019/20

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between Authority's external auditors and Authority's Audit & Performance Management Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit & Performance Management Committee under auditing standards.

Background

Under International Standards on Auditing (UK) (ISA(UK)) auditors have specific responsibilities to communicate with the Standards Audit & Performance Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Standards Audit & Performance Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Standards Audit & Performance Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Standards Audit & Performance Committee and supports the Standards Audit & Performance Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Authority's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Going Concern,
- Related Parties, and
- Accounting Estimates.

Purpose

This report includes a series of questions on each of these areas and the response we have received from Shropshire and Wrekin Fire and Rescue Authority's management. The Standards Audit & Performance Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2019/20?	McCloud Sargeant Pensions Case
2. Have you considered the appropriateness of the accounting policies adopted by Shropshire and Wrekin Fire and Rescue Authority? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	The accounting policies will be reviewed and taken to Standards, Audit and Performance Committee in April 2020.
3. Is there any use of financial instruments, including derivatives?	No
4. Is Are you aware of any significant transaction outside the normal course of business?	No

General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	No
6. Are you aware of any guarantee contracts?	No
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	No
8. Other than in house solicitors, can you provide details of those solicitors utilised by Shropshire and Wrekin Fire and Rescue Authority during the year. Please indicate where they are working on open litigation or contingencies from prior years?	Service Level Agreement with Telford & Wrekin Council for Monitoring Officer and legal services Service Level Agreement with EEF for specialist HR legal advice
9. Have any of the Authority's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	No
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	PSTax provided tax and VAT advice

Fraud Issue

Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit & Performance Management Committee and management. Management, with the oversight of the Audit & Performance Management Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit & Performance Management Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Shropshire and Wrekin Fire and Rescue Authority's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit Risk & Assurance Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Standards Audit & Performance Committee oversees the above processes. We are also required to make inquiries of both management and the Audit & Performance Management Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from the Authority,

Fraud risk assessment

Question	Management response
<p>1. Have assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Council's risk management processes link to financial reporting?</p>	<p>Although there is an on-going risk of fraud being committed against the Authority arrangements are in place to both prevent and detect fraud. These include work carried out by Internal Audit on overall fraud risk areas.</p> <p>The risk of material misstatement of the accounts due to undetected fraud is low.</p> <p>https://www.shropshirefire.gov.uk/sites/default/files/12-review-of-anti-fraud-bribery-and-corruption-strategy-1920.pdf</p> <p>The procedure can be found in the attached Anti Fraud Bribery and Corruption Strategy</p> <p>Risks within the departmental risk register and the corporate risk register that may have a financial impact would be taken account of within reserves</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>Payroll is the area deemed to be most at risk of fraud due to its size and nature. However introduction of electronic processing systems over the last twelve months has mitigated the risk around manual processing</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within the Authority as a whole or within specific departments since 1 April 2019?</p> <p>As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>No</p> <p>The Anti Fraud Bribery and Corruption Strategy is shared with staff following its approval at Fire Authority</p>

Fraud risk assessment

Question	Management response
<p>4. Have you identified any specific fraud risks?</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within the Authority where fraud is more likely to occur?</p>	<p>No</p>
<p>5. What processes do the Authority have in place to identify and respond to risks of fraud?</p>	<p>https://www.shropshirefire.gov.uk/sites/default/files/12-review-of-anti-fraud-bribery-and-corruption-strategy-1920.pdf</p> <p>The procedure can be found in the attached Anti Fraud Bribery and Corruption Strategy</p>

Fraud risk assessment

Question	Management response
<p>6. How would you assess the overall control environment for the Authority, including: the process for reviewing the effectiveness the system of internal control; internal controls, including segregation of duties; exist and work effectively?</p> <p>If not where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p>The Standards Audit and Performance Committee review and consider the Anti Fraud Bribery and Corruption Strategy, and recommend its approval to the Fire Authority. The Whistleblowing Policy is also reviewed and recommended to the Authority.</p> <p>Internal Audit provide the Committee with updates of their work on fraud prevention and detection, which would include any significant identified frauds and any action taken.</p>
<p>7. Are there any areas where there is potential for misreporting?</p>	<p>No areas for potential misreporting</p>

Fraud risk assessment

Question	Management response
<p>8. How do the Authority communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud?</p> <p>Have any significant issues been reported?</p>	<p>Through the Anti Fraud Bribery and Corruption Strategy, staff are encouraged to report concerns in the first instance to their line manager, or if this is not appropriate, to a senior manager. Senior management are then responsible for following up any allegation of fraud or corruption quickly to the Treasurer, or if this is not appropriate, to Internal Audit Services.</p> <p>A Brigade Order on Whistleblowing is also available to staff, which gives details about the support and safeguards that are available to those who do raise concerns.</p> <p>Staff are encouraged to report any potential fraudulent activity, such as inappropriate use of cash and financial resources, incorrect claims for activities carried out on behalf of the Service, or inappropriate dealings with suppliers. No significant issues have been reported.</p>

Fraud risk assessment

Question	Management response
<p>9. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>No posts are considered to be high risk</p>
<p>10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>Both members and senior officers from the organisation are required to complete a related party transactions return as part of the year end closedown process, and no related party relationships have been identified that present a risk of fraud.</p> <p>A Declaration of Interests register is also in place for members to declare any business interests.</p>

Fraud risk assessment

Question	Management response
<p>11. What arrangements are in place to report fraud issues and risks to the Standards Audit & Performance Committee?</p> <p>How does the Standards Audit & Performance Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>The Standards Audit and Performance Committee review and consider the Anti Fraud Bribery and Corruption Strategy, and recommend its approval to the Fire Authority. The Whistleblowing Policy is also reviewed and recommended to the Authority.</p> <p>Internal Audit provide the Committee with updates of their work on fraud prevention and detection, which would include any significant identified frauds and any action taken.</p>
<p>12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>No specific whistle blower reports have been made.</p>
<p>13. Have any reports been made under the Bribery Act?</p>	<p>No specific Bribery Act referrals have been made.</p>

Law and regulations

Issue

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Standards Audit & Performance Committee, is responsible for ensuring that the Authority's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does the Authority have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Authority's regulatory environment that may have a significant impact on the Council's financial statements?</p>	<p>The Senior Management Team has responsibility for ensuring the Authority is compliant with laws and regulations as detailed in the Brigade Orders. The Human Resources Manager has the largest responsibility as much legislation relates to people issues, but the Chief Fire Officer (CFO) takes responsibility for general Fire legislation and the Information Officer covers Data Protection etc. The Authority also has a delegated Section 114 Officer who oversees financial transactions and ensures that the relevant laws and regulations are complied with. The Monitoring Officer is a member of the Senior Management Team and attends monthly meetings. The Monitoring Officer is consulted about changes in legislation and provides advice and legal comment when required.</p> <p>Notice of any changes to laws and regulations, via circulars and government correspondence will be communicated to Senior Management Team and allocated to the relevant officer. Membership of national groups and communication with stakeholders and professional associations also ensure that management are kept informed of developments. The Monitoring Officer also alerts officers to any legislative changes which are likely to affect the Fire Authority</p> <p>Officers throughout the service will ensure that operations within their respective areas are carried out within up to date and appropriate regulatory frameworks and codes of practice.</p>
<p>2. How is the Standards Audit & Performance Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>The Treasurer attends the Committee providing assurance where required and the Committee receives the Annual Governance Statement on an annual basis. The CFO attends where specific issues arise and the Committee has the power to call other Senior Officers to the meetings as and when required.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2019 with an on-going impact on the 2019/2020 financial statements?</p>	<p>There have been no claims or litigation relating to non compliance.</p>

Impact of laws and regulations

Question	Management response
4. Is there any actual or potential litigation or claims that would affect the financial statements?	No
5. What arrangements does Authority have in place to identify, evaluate and account for litigation or claims?	The Fire Authority would review and investigate proportionately any instances that arose, and a review of existing processes would be undertaken to prevent further issues of non compliance in this area.
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	No

Going Concern

Issue

Matters in relation to going concern

ISA (UK) 570 covers auditor responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the financial statements.

The going concern assumption is a fundamental principle in the preparation of financial statements. Under this assumption entities are viewed as continuing in business for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.

Going concern considerations have been set out below and management has provided its response.

Going concern considerations

Question	Management response
<p>1. Has the management team carried out an assessment of the going concern basis for preparing the financial statements for the Authority? What was the outcome of that assessment?</p>	<p>Long term strategic financial planning is in place (to 2024) to ensure that the service is sustainable into the future, and this is based on best estimates of future financial settlements. Reserves and human resources are also modelled to ensure continuation of service into the long term, and plans are currently in place to remodel service delivery in line with available resources.</p>
<p>2. Are the financial assumptions in that report (e.g., future levels of income and expenditure) consistent with the Authority's Business Plan and the financial information provided to the Authority throughout the year?</p>	<p>The Service Plan incorporates financial planning, service transformation and service planning. It has been prepared by appropriately qualified and experienced staff in consultation with other Officers. Each element of the plan is consistent in terms of timescales and availability of resources required. Reports presented to members during the year are consistent with the budget set.</p>

Going concern considerations

Question	Management response
3. Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts and report on going concern?	The Service Plan considers the government changes in terms of grant settlement and the financial settlement, as far as they can be estimated, and the impact of these changes are clearly set out. The plan is updated to reflect changes in the financial settlement as they become known.
4. Have there been any significant issues raised with the Standards Audit & Performance Committee during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control).	No
5. Does a review of available financial information identify any adverse financial indicators including negative cash flow or poor or deteriorating performance against the better payment practice code? If so, what action is being taken to improve financial performance?	No

Going concern considerations

Question	Management response
6. Does the Authority have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Authority's objectives? If not, what action is being taken to obtain those skills?	Yes

Going concern considerations

Question	Management response
7. Does the Authority have procedures in place to assess their ability to continue as a going concern?	Long term strategic financial planning is in place (to 2024) to ensure that the service is sustainable into the future, and this is based on best estimates of future financial settlements. Reserves and human resources are also modelled to ensure continuation of service into the long term, and plans are currently in place to remodel service delivery in line with available resources.
8. Is management aware of the existence of events or conditions that may cast doubt on the Authority's ability to continue as a going concern?	None known
8. Is management aware of the existence of events or conditions that may cast doubt on the Authority's ability to continue as a going concern?	None known

Going concern considerations

Question	Management response
<p>9. Are arrangements in place to report the going concern assessment to the Standards Audit and Performance Committee ?</p> <p>How has the Standards Audit and Performance Committee satisfied itself that it is appropriate to adopt the going concern basis in preparing financial statements?</p>	<p>The Treasurer (as s114 Officer) and Head of Finance are both satisfied that the budget proposals are based on robust estimates, and that the level of reserves is adequate. This is communicated to the Committee at the point that the draft financial statements are discussed.</p> <p>The Authority also considers and approves the level of reserves proposed by Officers which is discussed alongside strategic plans in the Authority's Strategic Planning Group. This information is incorporated within the Service Plan, which is also shared with members.</p>

Related Parties

Issue

Matters in relation to Related Parties

Local Authorities are required to comply with IAS 24 and disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the Authority;
- associates;
- joint ventures;
- an entity that has an interest in the authority that gives it significant influence over the Authority;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Authority, or of any entity that is a related party of the Authority.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Authority's perspective but material from a related party viewpoint then the Authority must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Relating Parties

Question	Management response
<p>1. What controls does the Authority have in place to identify, account for and disclose related party transactions and relationships ?</p>	<p>A number of arrangements are in place for identifying the nature of a related party and reported value including:</p> <ul style="list-style-type: none"> .Maintenance of a Register of interests for Members, a register for pecuniary interests in contracts for Officers and Senior Managers requiring disclosure of related party transactions. .An annual return from senior managers/officers requiring confirmation that they have read and understood the declaration requirements and stating details of any known related party interests. .Review of in-year income and expenditure transactions with known identified related parties from prior year or known history. .Review of the accounts payable system and identification of amounts paid to assisted or voluntary organisations (no such payments are currently made).

Accounting estimates

Issue

Matters in relation to Related Accounting estimates

The Authority apply appropriate estimates in the preparation of their financial statements. ISA (UK) 540 sets out requirements for auditing accounting estimates. The objective is to gain evidence that the accounting estimates are reasonable and the related disclosures are adequate.

Under this standard we have to identify and assess the risks of material misstatement for accounting estimates by understanding how the Combined Authority identifies the transactions, events and conditions that may give rise to the need for an accounting estimate.

Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. We need to be aware of all estimates that the Combined Authority is using as part of its accounts preparation; these are detailed in appendix 1 to this report. The audit procedures we conduct on the accounting estimate will demonstrate that:

- the estimate is reasonable; and
- estimates have been calculated consistently with other accounting estimates within the financial statements.

We would ask the Standards Audit & Performance Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates

Question	Management response
1. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)?	No further disclosures are anticipated other than those at Appendix A
2. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	Yes
3. How is the Standards Audit and Performance Committee provided with assurance that the arrangements for accounting estimates are adequate ?	Members of the Standards Audit and Performance Committee receive and consider the statement of accounts, which contains the accounting policies associated with the financial statements. The Committee reviews the statement, and all variances of 10% or more on the previous statement are challenged and discussed. Any issues raised following the audit of the statement of accounts will be reported to the Committee.

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Property, plant & equipment valuations	Property valuations are made by an external valuer.	The Head of Finance notifies the valuer of changes to the estate from the prior year	Use the external valuer (RICS qualified)	Valuations are made in-line with the CIPFA Code of Practice guidance - reliance on expert	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Estimated remaining useful lives of PPE	Assets are assigned to asset categories with appropriate asset lives.	Consistent asset lives applied to each asset category.	Use the external valuer (RICS qualified)	The useful lives of property are recorded in accordance with the recommendations of the external RICS qualified valuer.	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Depreciation and Amortisation	Depreciation is provided for all fixed assets with a finite useful life on a straight-line basis.	Consistent application of depreciation method across all assets.	No	The length of the life is determined at the point of acquisition or revaluation.	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Impairments	Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.	Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired.	Use the external valuer (RICS qualified)	Valuations are made in-line with the CIPFA Code of Practice guidance - reliance on expert	No.

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Non-adjusting events – events after the balance sheet date	The Authority follows the requirements of the CIPFA Code of Practice	The Head of Finance notifies the Treasurer.	This would be considered on individual Circumstances	This would be considered on individual circumstances	No
Measurement of Financial Instruments	Measurements are obtained from appropriate sources. The Authority follows the requirements of the CIPFA Code of Practice.	The financial instruments are measured by the Head of Finance and the accounts are reviewed by the Treasurer.	No	The measurements are based upon the best information held at the current time and are provided as appropriate by experts in their field.	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Creditor accruals	Accruals are estimated by reviewing goods and services received prior to the end of the financial year for which an invoice has not been received.	The date of receipt of the goods and services is used in the estimation of the accrual.	No	The use of actual dates of receipt of goods and services gives a low degree of uncertainty.	No.

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Pension Fund Actuarial gains/losses	The actuarial gains and losses figures are calculated by the actuarial expert , Mercers. These figures are based on making % adjustments to the closing values of assets/liabilities.	For the Firefighters' pension scheme the Authority makes interim and final submission to the actuary. These are tested internally by the Authority who also responds to queries raised by the actuary on the interim submission. For the LGPS the Authority responds to queries raised by the administering authority Shropshire Council who administers the pensions system on behalf of the Authority.	The Authority are provided with an actuarial report by Mercers for both the LGPS and the Firefighters' Pension Fund.	The nature of these figures forecasting into the future are based upon the best information held at the current time and are developed by experts in their field.	No.
Pension Fund Liabilities (LGPS & Firefighters pension scheme)	The liabilities figures are calculated by the actuarial expert Mercers. These figures are based on a set of assumptions	The Authority responds to queries raised by the administering body – Shropshire Council	The Authority uses an expert Mercers to provide an actuarial report	The nature of these figures forecasting into the future are based upon the best information held at the current time and are developed by experts in their field.	No.



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