Grant Thornton

8a

The Audit Findings for Shropshire and Wrekin Fire and Rescue Authority

Year ended 31 March 2019

18 July 2019

Contents

Your key Grant Thornton team members are:

Phil Jones
Engagement Lead
T: 0121 232 5232
E: phil.w.jones@uk.gt.com

David Rowley
Audit Manager
T: 0121 232 5225
E: david.m.rowley@uk.gt.com

Kirsty Lees
Audit In charge
T: 0121 232 5242
E: kirsty.lees@uk.gt.com

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 2019 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 the Authority's 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) and Narrative Report), 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 on site during June and July. Our findings are summarised on pages 5 to 10. We have identified a number of adjustments to the financial statements, the impact of which is detailed in Appendix C (we are as yet unable to quantify the total net impact on the Authority's Comprehensive Income & Expenditure Statement owing to the outstanding IAS 19 report in relation to the McCloud judgement, as set out later in the report). 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, subject to the following outstanding matters; - receipt of management representation letter; - confirmation of investments to third party evidence; - receipt of evidence for capital commitment items; and - review of the final set of financial statements. The Authority is awaiting the results of an IAS19 revaluation due the McCloud issue, and once received these values will need inputting into the accounts. This is likely to be a material adjustment to the net pension liability. 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. Our anticipated audit report opinion will be unmodified.
Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	We have completed our risk based review of the Authority's value for money arrangements. We have concluded that Shropshire and Wrekin Fire and Rescue Authority has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified value for money conclusion. Our findings are summarised on page 13.
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 have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.

Acknowledgements

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.

Summary

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents will be discussed with management and the Audit & Performance Management 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

We have not had to alter or change our audit plan, as communicated to you in April.

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 Audit & Performance Management Committee meeting on 18 July 2019. These outstanding items include:

- receipt of management representation letter;
- confirmation of investments to third party evidence;
- receipt of evidence for capital commitment items; and
- review of the final set of 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.

Our assessment of the value of materiality has been adjusted to reflect the increased expenditure during the year.

	Communicated in Audit Plan (£)	Amounts used during audit (£)
Materiality for the financial statements	400,000	469,000
Performance materiality	300,000	351,000
Trivial matters	20,000	23,000
Materiality for senior officers' remuneration	50,000	50,000

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
The revenue cycle includes fraudulent transactions (rebutted)	There have been no changes to our assessment reported in the audit plan.
Management override of controls	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 • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates made and critical judgements applied by management and considered their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. Our audit work has not identified any issues in respect of management override of controls.
Valuation of land and buildings	We have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation expert 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 • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding • tested revaluations made during the year to see if they had been input correctly into the Authority's asset register. Our audit work has not identified any issues in respect of valuation of land and buildings.

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
Valuation of the pension fund net liabilities	We have: • updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liabilities are 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 valuations; • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liabilities; • tested the consistency of the pension fund assets and liabilities and disclosures in the notes to the core financial statements with the actuarial reports from the actuary; and • 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. Owing to sector wide issues in relation to the McCloud judgment, we believe that liabilities in respect of both the LGPS and Fire scheme are understated and have requested that the client request updated IAS 19 figures from their actuary. At the time of writing, this process remains ongoing.

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Land and buildings	Land and buildings comprises 23 fire stations, valued at £25.978m. These are specialised assets 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 engaged Urban Vision to complete the valuation of properties as at 31 March 2019. All fire stations were revalued during 2018/19. The valuation of properties by the valuer has resulted in a net increase to £25.978m.	We have: • Assessed management's expert for objectivity, independence, and competence. • Reviewed the completeness and accuracy of the underlying information used to determine the estimate. • Assessed for consistency of the estimate against the report produced by Gerald Eve as our auditor's expert. • Assessed the reasonableness of the increase in value. During our review of the valuation of land and buildings, we noted that land and building additions were not being depreciated as per the Authority's accounting policy but rather impaired out wholly and immediately. We have determined that this methodology resulted in a material misstatement in the financial statements in regard to the revaluation reserve, capital adjustment account, and CIES. These misstatements have been adjusted for by management and are detailed in the Audit Adjustments sections.	●

Assessment

- ● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Net pension liability	The Authority's total net pension liability at 31 March 2019 is £216.076m (PY £198.017m) comprising the Shropshire County Pension Fund Local Government scheme and unfunded defined benefit pension scheme obligations for Fire. The Authority uses Mercer to provide actuarial valuations of the Authority's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. The McCloud issue is referred to previously on page 6, and considered in further detail at the following page.	We have: (see below)	● (amber)

We have:

- Assessed the independence, competency, and objectivity of management's expert.
- Assessed the actuary's roll forward approach.
- Used an auditor's expert, PwC, to assess the actuary and the assumptions made by the actuary. These assumptions are detailed below.

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.5%	2.4% - 2.5%	●
Pension increase rate	2.3%	2.2% - 2.3%	●
Salary growth	3.7%	3.1% - 4.3%	●
Life expectancy – Males currently aged 45 / 65 (LGPS)	25.4 / 23.2 yrs	24.8 – 26.3 yrs 22.2 – 23.7 yrs	●
Life expectancy – Females currently aged 45 / 65 (LGPS)	28.7 / 26.4 yrs	27.9 – 29.0 yrs 25.0 – 26.4 yrs	●
Life expectancy – Males currently aged 40 / 60 (Fire)	28.3 / 26.4 yrs	24.8 – 26.3 yrs 22.2 – 23.7 yrs	●
Life expectancy – Females currently aged 40 / 60 (Fire)	30.3 / 28.4 yrs	27.9 – 29.0 yrs 25.0 – 26.4 yrs	●

- Review the completeness and accuracy of the underlying information used to determine the estimate.
- Assessed the impact of any changes to valuation method.
- Determined the reasonableness of the Authority's share of LGPS pension assets.
- Assessed the reasonableness of the increase in estimate
- Reviewed the adequacy of the disclosure of the estimate in the financial statements.

Assessment

- ● (red) We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● (amber) We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● (yellow) We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● (green) We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key judgements and estimates

Summary of management's policy

Net pension liability – Impact of McCloud Judgement

McCloud ruling re age discrimination

In January 2017, the Employment Tribunal ruled that transitional provisions in the New Judicial Pension Scheme (NJPS) were unlawfully age discriminatory because they were not objectively justified. The Tribunal found that a group of claimant judges had been subject to age discrimination when they were transferred to the NJPS established in April 2015 while under transitional provisions older colleagues were able to remain in the existing Judicial Pension Scheme (JPS). The JPS is a final salary scheme whereas the NJPS is a career average revalued earnings scheme.

Firefighters had brought a similar age discrimination case and the Employment Tribunal ruled that similar transitional provisions were a proportionate means of achieving a legitimate aim and so did not give rise to unlawful age discrimination. Firefighters appealed the ruling and in December 2018 the Court of Appeal looked at both the judges and firefighters' cases and ruled that there was age discrimination in the judges and firefighters pension schemes where there was transitional protections given to scheme members.

This in turn applies to the Local Government Pension Scheme. Where the transitional provisions are unlawful then those members who are found to have been discriminated against will need to be offered appropriate remedies to ensure they are placed in an equivalent position to the protected members.

The Government applied to the Supreme Court for permission to appeal and on 27 June 2019 it was announced this was denied.

The Authorityl had not included a disclosure relating to these matters on the basis that, in their view, because the government was seeking permission to appeal the Court of Appeal decision, which would not be known until July, and therefore a present obligation did not exist.

Audit Comments

The firm's view is that the McCloud judgement gives rise to a past service cost and liability within the scope of IAS 19 as the ruling created a new obligation.

IAS 19.61 states 'An entity shall account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices.' Our view is based on the fact there is a legal obligation. As set out in IAS 37.10, 'A legal obligation is an obligation that derives from:……….(c) other operation of law' i.e. the Court of Appeal ruling.

The IAS 37 criteria was considered to determine if a liability exists i.e. is there a present obligation as a result of a past event, is it probable than an outflow of resources will be required to settle the obligation and can a reliable estimate be made? Where there is a liability, it would be accounted for under IAS 19 due to the IAS 37 scope exclusion in respect of employee benefits (IAS 37.5d).

On the 12th June 2019 we wrote to all our local government clients setting out our views and recommending that bodies ask their actuaries to re-run the IAS19 reports with the actuary reflecting the best estimate for restitution and providing sensitivity analysis for key assumptions.

The Authority has agreed with our assessment and proactively consulted with its actuary in order to respond to this sector wide issue. At the time of writing, we are awaiting updated IAS 19 figures from the Actuary and anticipate reviewing updated accounting entries following production of the updated report.

Conclusion

As referred to above, the Authority has responded appropriately to the issue. Delays in receipt of the updated report are not unexpected owing to the high level of activity in the sector in response to these issues.

Although we are not able to conclude on the updated entries at this point, we are comfortable with the wider methods and assumptions used by the actuary and the requests made by the Authority and therefore anticipate that we will be able to issue an unmodified opinion upon receipt of the final updated draft taking into account the effect of the McCloud decision.

Significant findings - Going concern

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).

Going concern commentary

Management's assessment process

Management have responded to the questions we set out on going concern in our “Informing the Risk Assessment” document as well as provided their assessment which confirms:

- There are no events of which they are aware which would indicate a material uncertainty on the Authority’s ability to continue as a going concern. This extends but is not limited to at least twelve months from the Balance Sheet date.
- The Authority monitors cash flow on a daily basis. We have obtained a detailed cash flow forecast for a period of 12 months following the balance sheet date. Forecasts do not indicate a material uncertainty around going concern.
- Adjusting for the LGPS and Fire scheme liabilities (which are absorbed by the pension reserve under a statutory override) the Authority has a strong balance sheet with cash and cash equivalents and short term investments in excess of £17m.

Auditor commentary

The going concern assumption is a fundamental principle in preparing financial statements. Under this principle, the Authority is deemed to be a going concern for the foreseeable future. The statutory duties undertaken by the Authority and the method in which funding is raised and provided by central Government are set to continue.
There is no intention to cease trading or seek protection from creditors. The Authority has a Medium Term Financial Strategy (MTFS) which is regularly reviewed with the medium term financial outlook updated to reflect the forecast financial position of the Authority going forward

In addition based on our own review of the Authority, we are aware that the Authority has set an "approved budget" for 2019/20 and has a longer term financial plan. The going concern assessment includes a cash flow forecast. The cashflow forecast (which has been subject to audit procedures such as arithmetical checks and sensitivity analyses) does not indicate any signs of significant financial difficulty that would cause concern (although we note that the Authority does not extend this cash flow forecast beyond a period of 12 months following the financial year end. Whilst we have been able to conclude that the Authority’s financial position does not indicate a material uncertainty around going concern, we are required to conclude on a period of 12 months following the signing of our audit report as opposed to the coming financial year and, accordingly, have recommended that the Authority consider extending the forecasting processes to take into account this requirement, as detailed later in the report). Furthermore, changes to the firefighters’ pension and LGPS schemes will have an impact on the Authority’s budgeting process going forward. At the report date we do not have an indication of the value of this impact. Whilst our view is that this will not present an issue to the going concern assertion during a period of 12 months from the Balance Sheet date, the Authority will need to factor these changes into its financial planning going forward.

As such we consider that the assessment undertaken by the Authority on going concern is a reasonable and valid one and there are no indications of material uncertainty.

Work performed

- Detailed review of draft financial statements and forecasts;
- Audit procedures performed on forecasting documents as outlined above.

Auditor commentary

- We did not identify a material uncertainty around going concern.
- We are satisfied that the level of disclosure around the going concern assertion is sufficient within the Authority’s financial statements.

Concluding comments

Auditor commentary

- We anticipate issuing an unmodified audit opinion.

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 Audit & Performance Management Committee. We have not been made aware of any incidents of material fraud in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Authority, which is included in the Audit and Performance Management Committee papers.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to entities with which the Authority holds cash. This permission was granted and the requests were sent. Most of these requests were returned with positive confirmation, however 5 requests are still outstanding.
Disclosures	Our review found no material omissions in the financial statements.
Audit evidence and explanations/significant difficulties	All information and explanations requested from management was provided.

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 and Narrative Report) is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been 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 numbers of areas: • 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 other information of which we are aware from our audit • If we have applied any of our statutory powers or duties We have nothing to report on these matters.
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. Note that work is not required as the Authority does not exceed the threshold.
Certification of the closure of the audit	We intend to certify the closure of the 2018/19 audit of Shropshire and Wrekin Fire and Rescue Authority in the audit opinion.

Value for Money

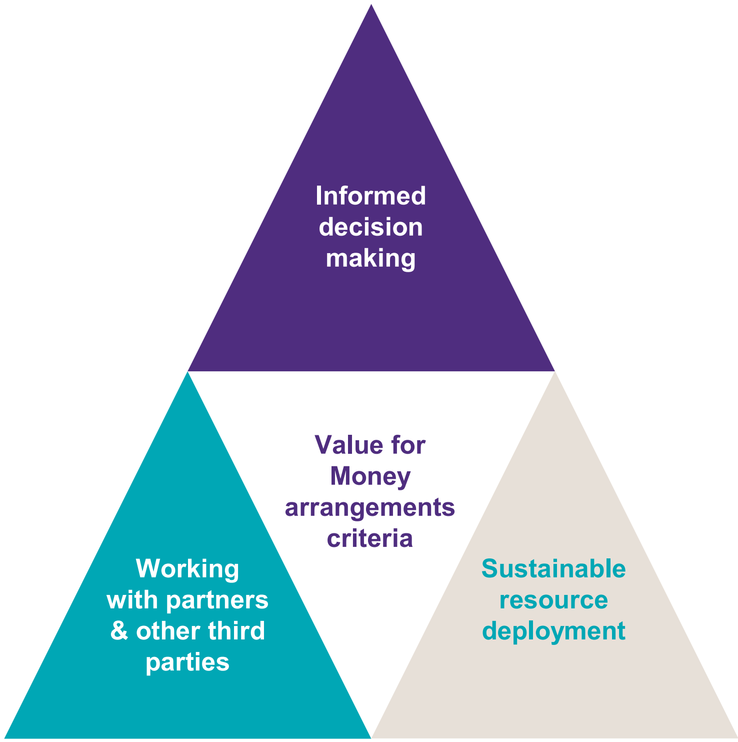
Background to our VFM approach

We are required to satisfy ourselves that the Authority has made 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. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. 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."

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in March 2019 which did not identify any significant risks.

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

Overall conclusion

Based on the work we have performed, we are satisfied that the Authority had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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.

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

Further, we have complied with the requirements of the National Audit Office’s Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority. No non-audit services were identified which were charged from the beginning of the financial year to July 2019.

Action plan

We have identified 4 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 2019/20 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	The Authority holds a debtor balance of £90k due from its subsidiary, SFRMS Ltd. Given that the company is now dormant and there are no active plans for it to resume trading in the future, we do not consider this debt to be recoverable and therefore debtors would be overstated. After discussion with management this debtor balance now has a full specific provision against it to reflect the risk around recoverability.	We recommend writing off this debtor balance due to unlikely collection within the next 12 months. **Management response** • Provision is now in place for the debtor and the Fire Authority will be asked to consider and approve the recommendation to write off the balance at its October meeting.
● Medium	During our final accounts visit, we were unable to locate 4 declarations of interests for members and senior management. This poses a risk to the completeness of the related party transactions disclosure.	We recommend updating declarations of interests annually and keeping them for use in the production of the financial statements and internal monitoring of potential related party activity. **Management response** • Officers will ensure that declarations are reviewed and updated annually and all records kept.
● Medium	As part of our work on the going concern assumption, we noted that the Authority only produces 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 processes.	We recommend producing a cash flow forecast that stretches further than the next financial year. **Management response** • The Authority's procedures for cash flow monitoring will be amended to ensure that they take into account periods beyond the financial year.
● Low	Following receipt of IAS 19 assurance information from the auditors of Shropshire County Pension Fund, we identified £185k of transfers in which had not been included in Mercers IAS 19 figures. Following consultation with Pension Fund staff we determined that the net liability associated with these transfers in is below trivial and therefore this does not constitute an unadjusted misstatement. However, the result is an understatement of cash flow, assets and liabilities of approximately £185k within the pension fund disclosures.	The actuary's IAS 19 work is based on a data sheet which is based on month 10 data grossed up to a month 12 estimate by Pension Fund staff. As a result it is possible that such transactions could take place in months 11 and 12 which may not be accounted for by the Fund or actuary. We therefore recommend that the Authority arranges to discuss the data submission with the Fund administrators at the end of coming financial years in order to prevent similar omissions. **Management response** • Officers will ensure that the information prepared by the pension fund for submission to Mercers includes transferees that have occurred in the last two months of the financial year

Controls

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

Follow up of prior year recommendations

We identified the following issues in the audit of Shropshire and Wrekin Fire and Rescue Authority's 2017/18 financial statements, which resulted in 2 recommendations being reported in our 2017/18 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
✓	**Journals Authorisation** As part of our detailed testing of journal entries in 2017/18 we noted a few entries which in paper form had been prepared and authorised by the same individual. In some instances, the same individual was also involved in the upload to the ledger system. This level of involvement increases the risk of management override of control. As best practice we recommended that where an individual is preparing a journal entry, they should not be involved in any authorisation stage in order to ensure appropriate segregation of duties and control.	The Authority now have a new ledger system in place which similarly requires separate originators and authorisers. Additionally the Authority now ensures that the paper journals have sufficient segregation of duties.
✓	**Register of Interests** We noted from our related party transactions review that the register of business interests for officers had not been updated in 2017/18 and therefore this was rolled forward from 2016/17. This increases the risk of related party transactions with entities who officers have an interest being undisclosed in the financial statements. We recommended that the register of business interests is updated annually to ensure any changes in interests are documented and therefore potential transactions with these entities may be disclosed accordingly in the financial statements.	The declarations that we inspected during our visit had been updated for 2018/19. We did note that here were 4 declarations missing – this has been raised as a recommendation for 2018/19 on the previous page.

Assessment
✓ Action completed
X Not yet addressed

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 2019.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000
Effect of the McCloud judgment (as referred to earlier in the report)	TBC	TBC	TBC
Expected credit loss The Authority holds a debtor balance of £90k due from its subsidiary, SFRMS Ltd. Given that the company is now dormant and there are no active plans for it to resume trading in the future, we do not consider this debt to be recoverable and therefore debtors would be overstated. Management have agreed with this assessment and have created a full specific provision against this debtor in anticipation of future write off. Expenditure has increased and debtors has decreased.	90	(90)	90
Depreciation issue During our review of the valuation of land and buildings, we noted that land and building additions were not being depreciated as per the Authority's accounting policy but rather impaired out wholly and immediately. We have determined that the £1,136k impairment charge can be reversed out of cost of services and replaced with a £73k deprecation charge, leading to a reduction on net expenditure and a decrease in the revaluation gain on PPE in OCI of £1,063k. This is a net nil impact on the Statement of Financial Position, with the balancing entry being posted to Other Comprehensive Income, as referred to above.	-	-	(1,063)
Overall impact	**TBC**	**TBC**	**TBC**

Audit Adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Accounting policies for reserves	There were 5 reserves on the Balance Sheet for which there was no accounting policy.	Policies should be inserted into the Statement of Accounting Policies in relation to these reserves.	✓
RSG and RSDG	Revenue Support Grant and Rural Services Delivery Grant were combined as one grant in the grants note.	These grants should be separated out as they are distinct grants.	✓
Senior Officers' remuneration	The senior officers' remuneration note included incorrectly calculated benefits in kind figures.	Benefits in kind should be calculated correctly and amended in the note.	✓
Capital commitments	The capital commitments note contained internal budget commitments as well as external contractual commitments. Only commitments that are external to the Authority should be disclosed.	Any internal budget commitments should be removed from this disclosure note.	✓
Financial Instruments	The creditors value in the financial instruments note incorrectly excluded £98k of creditors.	The financial instruments note be updated to reflect an additional £98k of creditors that class as financial instruments.	✓
Classification of business rates as precept income	The CIES shows Council Tax income under the Precepts heading and NNDR income under the Government Grants heading. NNDR forms part of the precept demand made to the billing authorities and should therefore be shown as precept income.	NNDR income should be included under the Precepts heading on the CIES rather than Government Grants.	✓
LGPS disclosures; transfers in	Following receipt of information from the auditors of Shropshire County Pension Fund, we note transfers in to the value of £185k took place in March 2019 which had not been accounted for in Mercer's IAS 19 report.	The data sheet sent to the actuary by the fund administrators is an estimate based on the first ten months. As such, these transactions were not factored in to the IAS 19 report and do not feature in the disclosures. The impact of this is below material but results in a reportable omission from the pension fund disclosures. The Authority have opted not to amend on the grounds of materiality. Further information is provided in the Action Plan (Appendix A).	X
Various	A number of minor disclosure amendments were proposed as a result of our review of the draft financial statements.		✓

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
Authority Audit	£21,996	£26,496
Total audit fees (excluding VAT)	**£21,996**	**£21,996**

	Fee Variation	Description
Assessing the impact of the McCloud ruling	£1,500	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we have considered the impact on the financial statements along with any audit reporting requirements.
Pensions – IAS 19	£1,500	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year. The authority has obtained an updated report from its actuary, which we are in the process of reviewing.
PPE Valuation – work of experts	£1,500	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE Valuations across the sector. We have increased the volume and scope of our audit work to reflect this.
Total Fee variation (excluding VAT)	**£4,500**	