

Annual Audit Letter

Year ending 31 March 2018

Shropshire and Wrekin Fire and Rescue Authority

August 2018



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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Shropshire and Wrekin Fire and Rescue Authority (the Authority) for the year ended 31 March 2018.

This Letter is intended to provide a commentary on the results of our work to the Authority and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Authority's Audit and Performance Management Committee as those charged with governance in our Audit Findings Report on 19 July 2018.

Our work

Materiality	We determined materiality for the audit of the Authority's financial statements to be £402,000, which is 2% of the Authority's gross revenue expenditure from the prior year.
Financial Statements opinion	We gave an unqualified opinion on the Authority's financial statements on 19 July 2018.
Whole of Government Accounts (WGA)	We did not perform any detailed work on the Authority's consolidation return as they are below the reporting threshold. This is in line with guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Authority's financial statements (section two)
- assess the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Authority's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Executive Summary

Value for Money arrangements	We were satisfied that the Authority put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Authority on 19 July 2018.
Certificate	We certify that we have completed the audit of the accounts of Authority in accordance with the requirements of the Code of Audit Practice.

Working with the Authority

During the year we have delivered a number of successful outcomes with you:

- An efficient audit – we delivered an efficient audit with you in June and July, delivering the accounts 12 days before the deadline, releasing your finance team for other work.
- Sharing our insight – we provided regular audit and performance management committee updates covering best practice
- We met regularly with the Head of Finance and Chief Fire Officer to discuss some of your key challenges and share our insight into National Fire issues.
- Providing training – we provided your teams with training on financial accounts and annual reporting

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Authority's staff.

Grant Thornton UK LLP
August 2018

Audit of the Accounts

Our audit approach

Materiality

In our audit of the Authority's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the accounts to be £402,000, which is 2% of the Authority's gross revenue expenditure in the prior year.

We also set a lower level of specific materiality for senior officer remuneration of £100,000 in view of sensitivity and public interest in this disclosure.

We set a lower threshold of £20,100, above which we reported errors to the Audit and Performance Management Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts, narrative report and annual governance statement published alongside the Statement of Accounts to check they are consistent with our understanding of the Authority and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach is based on a thorough understanding of the Authority's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Accounts

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our Audit Plan	How we responded to the risk	Findings and conclusions
<p>1 Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>We identified management override of controls as a risk requiring special audit consideration.</p>	<p>Auditor commentary</p> <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none">• review of accounting estimates, judgements and decisions made by management• testing of journal entries• review of unusual significant transactions• review of accounting policies	<p>Although we did not identify any significant audit findings or instances of management override of control, we have made one control recommendation in relation to segregation of duties. See appendix A for further details.</p>
<p>2 Valuation of pension fund net liability</p> <p>The Authority's LGPS pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p>	<p>Auditor commentary</p> <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none">• Identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We have also assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement• Evaluate the competence, expertise and objectivity of the actuary who carried out your pension fund valuations. We will gain an understanding of the basis on which the valuations are carried out.• Undertake procedures to confirm the reasonableness of the actuarial assumptions made.• Check the consistency of the pension fund assets and liabilities and disclosures in notes to the financial statements with the actuarial report from your actuary.	<p>Our audit work has not identified any issues in respect of the valuation of the LGPS or FFPS pension fund net liability</p>

Audit of the Accounts

Audit opinion

We gave an unqualified opinion on the Authority's financial statements on 19 July 2018, in advance of the national deadline.

Preparation of the accounts

The Authority presented us with draft accounts in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit to the Authority's Audit and Performance Management Committee on 19 July 2018.

In addition to the key audit risks reported above, we identified a couple of issues throughout our audit that we have asked management to address for the next financial year. These are included at appendix B to this letter.

Annual Governance Statement and Narrative Report

We are required to review the Authority's Annual Governance Statement and Narrative Report. It published them on its website in the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Authority and with our knowledge of the Authority.

Certificate of closure of the audit

We are also required to certify that we have completed the audit of the accounts of Shropshire and Wrekin Fire and Rescue Authority in accordance with the requirements of the Code of Audit Practice.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the 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.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

As a result of the risk assessment undertaken, we did not identify any significant risks and therefore no further detailed procedures were performed.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2018.

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit.

Report	Date issued
Audit Plan	25 April 2018
Audit Findings Report	19 July 2018
Annual Audit Letter	6 August 2018

	Proposed fee	Final fee
Authority Audit	£28,566	£28,566
Total audit fees (excluding VAT)	£28,566	£28,566

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

B. Recommendations

Assessment	Issue and risk	Recommendations
1	<p data-bbox="212 371 253 411">●</p> <p data-bbox="349 363 636 387">Journals Authorisation</p> <p data-bbox="349 408 1088 523">The journal entry process is a four part system whereby journals are first prepared manually on paper, signed as authorised and then entered electronically on to the ledger system and authorised.</p> <p data-bbox="349 544 1099 659">As part of our detailed testing of journal entries 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.</p> <p data-bbox="349 679 1032 730">This level of involvement increases the risk of management override of control.</p>	<p data-bbox="1144 363 2145 619">Recommendations</p> <ul data-bbox="1144 363 2145 619" style="list-style-type: none"><li data-bbox="1144 363 2145 483">• It should be noted that the journals reviewed did not indicate any instances of management override of control and were agreed to underlying supporting evidence as appropriate entries. Also, at least one other individual was involved in the four part process at some level.<li data-bbox="1144 499 2145 619">• While we recognise the limited size of the finance team, as best practice we would recommend 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. <p data-bbox="1144 639 1424 663">Management response</p> <ul data-bbox="1144 679 2018 730" style="list-style-type: none"><li data-bbox="1144 679 2018 730">• We will ensure that journal preparation and processing contains sufficient segregation of duties.
2	<p data-bbox="212 770 253 810">●</p> <p data-bbox="349 762 607 786">Register of Interests</p> <p data-bbox="349 807 1095 890">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</p> <p data-bbox="349 911 1077 994">This increases the risk of related party transactions with entities who officers have an interest being undisclosed in the financial statements.</p>	<p data-bbox="1144 762 2130 874">Recommendations</p> <ul data-bbox="1144 762 2130 874" style="list-style-type: none"><li data-bbox="1144 762 2130 874">• We would recommend 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 <p data-bbox="1144 895 1424 919">Management response</p> <ul data-bbox="1144 935 1928 962" style="list-style-type: none"><li data-bbox="1144 935 1928 962">• We will ensure that the register is maintained and kept up to date.

Controls

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



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