

## The Annual Audit Letter for Shropshire and Wrekin Fire and Rescue Authority

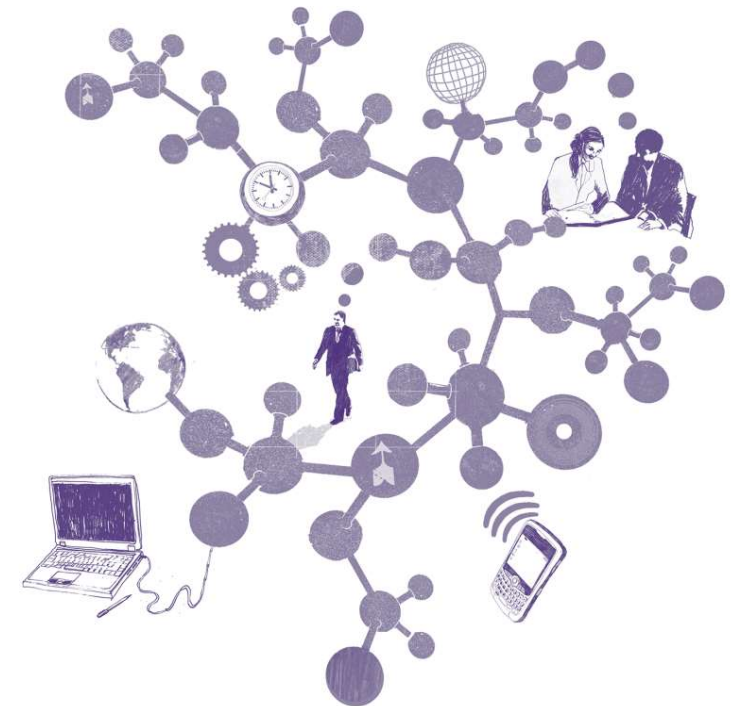
Year ended 31 March 2016

October 2016

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# Contents

<b>Section</b>	<b>Page</b>
1. Executive summary	3
2. Audit of the accounts	4
3. Value for Money conclusion	9
4. Working with the Fire & Rescue Authority	12

## **Appendices**

A Reports issued and fees

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# Executive summary

## **Purpose of this letter**

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 2016.

This Letter is intended to provide a commentary on the results of our work to the Authority and its 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 (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Authority's Audit Committee as those charged with governance in our Audit Findings Report on 15 September 2016.

## **Our 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 and Ireland) (ISAs) and other guidance issued by the NAO.

## **Our work**

### **Financial statements opinion**

We gave an unqualified opinion on the Authority's financial statements on 28 September 2016.

### **Value for money conclusion**

We were satisfied that the Authority put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016. We reflected this in our audit opinion on 28 September 2016.

### **Certificate**

We certified that we had completed the audit of the accounts of Shropshire and Wrekin Fire and Rescue Authority in accordance with the requirements of the Code on 28 September 2016.

## **Working with the Authority**

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**  
**October 2016**

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# Audit of the accounts

## **Our audit approach**

### **Materiality**

In our audit of the Authority's accounts, 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 our audit of the Authority's accounts to be £455,000, which is 2% of the Authority's gross revenue expenditure. We used this benchmark, as in our view, users of the Authority's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We set a lower threshold of £22,750, above which we reported errors to the Audit and Performance Management Committee in our Audit Findings Report.

We also set a lower level of specific materiality for certain areas, including:

- Cash and cash equivalents – all errors in excess of 10% of materiality (£45,500) would be reported
- Officers' Remuneration – all errors in excess of £10,000 would be reported
- Related Party Transactions – materiality was based on our assessment of individual related parties as stipulated by accounting standards

### **The scope of our audit**

Our audit involves obtaining enough 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 Authority's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- 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 narrative report and annual governance statement to check they are consistent with our understanding of the Authority and with the accounts on which we give our opinion.

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

Our audit approach was 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 of Shropshire and Wrekin Fire and Rescue Authority

These are the 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
<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 Stoke on Trent and Staffordshire Fire and Rescue Authority, we have determined that the risk of fraud arising from revenue recognition could 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,</li> <li>• the culture and ethical frameworks of local authorities, including Stoke on Trent and Staffordshire Fire and Rescue Authority, mean that all forms of fraud are seen as unacceptable.</li> </ul> <p><b>Our audit work did not identify any issues in respect of revenue recognition within the financial statements.</b></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>	<p>As part of our audit work:</p> <ul style="list-style-type: none"> <li>• We reviewed entity level controls and the journal control environment</li> <li>• We tested key journal entries in detail</li> <li>• We reviewed the accounting estimates, judgements and decisions made by management</li> <li>• We reviewed any unusual, significant transactions identified during audit procedures.</li> </ul> <p><b>Our audit work did not identify any evidence of management over-ride of controls. In particular, the findings of our review of journal controls and testing of journal entries did not identify any significant issues.</b></p>

# Audit of the accounts (Continued)

Risks identified in our audit plan	How we responded to the risk
<p><b>Actuarial valuation of pension fund net liability</b></p> <p>The Authority's pension fund net liability is an accounting estimate with a high degree of estimation uncertainty and is therefore considered to represent a significant risk in line with ISA 540</p>	<p>As part of our audit work:</p> <ul style="list-style-type: none"> <li>• We documented the key controls that were put in place by management to ensure that the pension fund liability was not materially misstated.</li> <li>• We reviewed the competence, expertise and objectivity of the actuary who carried out the Authority's pension fund valuation and undertook follow up work as recommended.</li> <li>• We gained 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>• We undertook a review of the data provided to the actuary to confirm accuracy</li> </ul> <p><b>Our audit work did not identify any issues in respect of actuarial valuation of the pension fund liability.</b></p>
<p><b>Employee Remuneration</b></p> <p>Payroll expenditure of the Authority is highly material and therefore there is a reasonably possible risk that expenditure recorded and associated liabilities are understated at period end</p>	<p>As part of our audit work:</p> <ul style="list-style-type: none"> <li>• We documented our understanding of processes and key controls over the transaction cycle</li> <li>• We undertook walkthroughs of the key controls to assess whether those controls were in line with our documented understanding</li> <li>• We reviewed the reconciliation between General Ledger and Payroll System</li> <li>• We performed payroll trend analysis</li> <li>• We performed substantive testing of employee remuneration transactions.</li> </ul> <p><b>Our audit work did not identify any significant issues in relation to the risk identified.</b></p>
<p><b>Operating Expenditure</b></p> <p>Due to the level of activity at period end, there is a reasonably possible risk that creditors relating to core activities are understated</p>	<p>As part of our audit work::</p> <ul style="list-style-type: none"> <li>• We documented our understanding of processes and key controls over the transaction cycle</li> <li>• We undertook walkthroughs of the key controls to assess whether those controls were in line with our documented understanding</li> <li>• We performed cut-off testing of creditor figures disclosed at 31 March 2016</li> <li>• We assessed the accruals process at year end.</li> </ul> <p><b>Our audit work did not identify any significant issues in relation to the risk identified.</b></p>

# Audit of the accounts (Continued)

Risks identified in our audit plan	How we responded to the risk
<p><b>Firefighters Pensions Benefit Payments</b>                      Payments to retiring officers are low in volume but high in value and the service is reliant on effective controls both within and outside the organisation to ensure that payments made are valid and accurate. Therefore there is a reasonably possible risk that these payments may be improperly computed and liabilities understated</p>	<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 whether those controls were in line with our documented understanding</li> <li>• substantive testing of lump sum payments made during year and calculation of recurring annual pension.</li> <li>• Testing of the figures associated with the GAD v Milne settlement . Agreement of payments and receipts relating to the Authority.</li> </ul> <p><b>Our audit work did not identify any significant issues in relation to the risk identified.</b></p>

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# Audit of the accounts

## **Audit opinion**

We gave an unqualified opinion on the Authority's accounts on 28 September 2016, in advance of the 30 September 2016 national deadline.

The Authority made the accounts available for audit in line with the agreed timetable, 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 of the accounts of the Authority to the Authority's Audit and Performance Management Committee on 15 September 2016. We have summarised these as follows:

- The CIPFA Code adopted accounting standard IFRS 13 in 2015/16, this enhanced the disclosure requirements in relation to fair value. Various amendments to the disclosure of financial instruments have been identified to ensure that 2015/16 financial statements are presented in accordance with IFRS13.
- We reported an uncertainty in the valuation of land and buildings as a result of the review undertaken by Shropshire Council in 2015/16. It was concluded that this would not have a material impact on the financial statements.
- Our review of building valuations indicates that they are potentially undervalued in the region of £300,000 to £450,000k.. While this represents an uncertainty in the valuation of the buildings we are satisfied that it does not result in a material error
- Various minor disclosure changes were identified through our review of the financial statements.

## **Annual Governance Statement and Narrative Report**

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

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Authority and with our knowledge of the Authority.

## **Other statutory duties**

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Authority's accounts and to raise objections received in relation to the accounts.

We were not required to invoke our additional powers and duties during the completion of this audit.



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# Value for Money conclusion

## **Background**

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2015 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.

We did not identify any significant value for money risks but rather specific areas of audit focus, these have been set out in table 2 overleaf.

## **Overall VfM 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 2016.

# Value for Money

**Table 2: Value for money work**

Risk identified	Work carried out	Findings and conclusions
<p><b>Asset Strategy</b></p> <p>The fire authority have a wide spread and diverse asset base, we will gain an understanding of how the authority have configured these assets, including plant and equipment, in order to ensure the best value for money is delivered</p>	<p>We reviewed the individual asset management strategy for all significant assets with the Head of Resources</p>	<p>In respect of all key land and buildings and in extension, equipment and vehicles, the Authority have a comprehensive strategy in place. This incorporates comparison to the standards outlined in the Brigade Order and links to the wider strategic aims of the Authority through documentation of how assets are equipped to meet these aims.</p> <p>This also flows through to the programme of capital investment and maintenance to ensure that all assets are improved or maintained as expected.</p> <p><b>On this basis we concluded that any risk would be sufficiently mitigated and the Authority has proper arrangements.</b></p>
<p><b>Workforce Planning</b></p> <p>We are aware that the fire authority has contracted in size significantly in the past few years under the public value initiative and it is felt now that there is scope to expand again. We will therefore assess progress made against the workforce plan.</p>	<p>We have reviewed the workforce plan presented to the Service Management Team in March 2015 (Wholetime Recruitment paper) and other supporting information.</p>	<p>The Fire and Rescue Authority has a clear workforce strategy setting out the assessment of staffing requirements against the Integrated Risk Management Plan. This is monitored by the wholetime and retained duty performance reports presented quarterly.</p> <p>The Authority has determined that the current workforce model of 175 personnel is not sufficient due to the level of work undertaken on detached support projects and other streams. Therefore, the recruitment of 12 wholetime firefighters and permanent appointment of 10 firefighters from Hereford and Worcester FRA was approved. The retirement profile mean that this is not deemed to impact on the ability to meet savings identified in the IRMP by 2020.</p> <p>We confirmed that the recruitment timetable had been circulated and adverts went live in April. Physicals were held in April and May, interviews in June and training will commence in September. Successful recruits are expected to join the watch from December 2016.</p> <p><b>On this basis we concluded that any risk would be sufficiently mitigated and the Authority has proper arrangements.</b></p>

# Value for Money

**Table 2: Value for money work**

Risk identified	Work carried out	Findings and conclusions
<p><b>Procurement</b></p> <p>The authority work along side bodies on an array of projects across sectors. We will obtain details of procurement statistics to ensure that processes in place to secure value for money are implemented effectively.</p>	<p>We reviewed the Authority's policies and procedures for procurement and how this is governed to ensure value for money is achieved.</p>	<p>The FRA has a clear procurement strategy consisting of 5 elements, to:</p> <ul style="list-style-type: none"> <li>•use procurement to achieve the aims and objectives as set out in the FRAs Performance Plan and Business Plans</li> <li>•develop relationships and knowledge of suppliers of works, goods and services to achieve savings and efficiency gains</li> <li>•play an active role in national and regional procurement initiatives</li> <li>•raise awareness of procurement within and outside the authority</li> <li>•improve contract management procedures, so that they are in a better position to make informed choices over how works, goods and services are provided for the community.</li> </ul> <p>The FRA has made good progress against its strategy. While the FRA is not leading any initiatives they are using frameworks and joint working wherever possible. With Telford and Wrekin Council, the FRA has a jointly fund procurement administrator, and this arrangement is being extended to a procurement officer. Training has been carried out with the senior management team, and part of the role of the new procurement officer is to support officers in the management of contracts.</p> <p>Procurement is conducted through a Contracts Register held on the internal portal. Each department has responsibility for detailing and maintaining the list of suppliers that it has agreements with. However, the FRA are also introducing electronic on-line ordering of low value call-off-contract items</p> <p>Tendering processes for the Authority are outlined in the Contract Standing Orders. These are reviewed on a regular basis by the Fire &amp; Rescue Authority. Any exemptions to these orders must be approved the Chief Fire Officer and the Treasurer following consultation with the Chair and Vice-Chair of FRA. There is limited use of procurement metrics to monitor areas of non compliance with policies or to identify areas where cost savings can be made by the FRA. For example, the FRA do not monitor how much non-pay expenditure is procured via contracts, how much is via quotes, and how much is ad hoc expenditure. This is a potential area of improvement.</p> <p><b>On this basis we concluded that any risk would be sufficiently mitigated and the Authority has proper arrangements</b></p>

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# Working with the Authority

## Our work with you in 2015/16

We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship. Together we have delivered some great outcomes.

**An efficient audit** – we delivered the accounts audit before the deadline and in line with the timescale we agreed with you. Our audit team are knowledgeable and experienced in your financial accounts and systems. We will continue to work with you to identify further efficiencies in the process to ensure a continued, smooth audit delivery.

**Improved financial processes** – during the year we reviewed your financial systems and processes including employee remuneration, operating expenditure and pensions. We worked with you to ensure accounting policies and disclosures were accurately reflected and compliant with accounting standards.

**Understanding your operational health** – through the value for money conclusion we provided you with assurance on your operational effectiveness.

**Sharing our insight** – we provided periodic audit committee updates covering best practice. Areas we covered included Making Devolution Work; Government Spending Review; Closer working between Emergency Services and Health and Safety in the sector.

**National research reports** – we have shared with you our publication on Joining up the dots, not picking up the pieces – Partnership working in Mental Health and Better Together – Building a successful joint venture company and will continue to support you as you consider greater use of alternative delivery models for your services.

We are looking forward to working with you next year and will continue to support you. Locally, our focus will be on:

- An efficient audit – continuing to deliver an efficient audit.
- Improved financial processes – we will challenge our approach to ensure that as much work is brought forward as possible to support faster close in 2017.
- Understanding your operational health – we will focus our value for money conclusion work on challenges from new models of working. We will also review progress made against the Service Plan and ability to deliver surplus through to 2019/20 as anticipated.
- Supporting development – we will discuss with you any updates in the initiative to work closer with other blue light services under government responsibility of the Home Office.
- Support outside of the audit – our specialist teams are available to discuss areas such as senior officer pension arrangements and alternative delivery models.

# Appendix A: Reports issued and fees

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

## Fees

	Planned £	Actual fees £	2014/15 fees £
Statutory audit of Authority	28,566	28,566	38,088
<b>Total fees (excluding VAT)</b>	<b>28,566</b>	<b>28,566</b>	<b>38,088</b>

## Fees for other services

Service	Fees £
<b>Audit related services:</b>	<b>0</b>
<b>Non-audit services</b>	<b>5,000</b>

## Reports issued

Report	Date issued
Audit Plan	April 2016
Audit Findings Report	September 2016
Annual Audit Letter	October 2016



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