

The Audit Findings for Shropshire and Wrekin Fire and Rescue Authority

Year ended 31 March 2020

24 September 2020



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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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 2020 for those charged with governance.

Covid-19	<p>The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Authority. Including changing patterns of demand and providing logistical support to local authority partners and other emergency services in managing the crisis.</p> <p>The finance team have also had to consider managing staff sickness, access to systems and team capacity.</p> <p>Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020.</p>	<p>We updated our audit risk assessment to consider the impact of the pandemic on our audit as the outbreak progressed. Per our audit plan (presented to you in April 2020) we designated a financial statement level significant risk in respect of Covid -19 and highlighted that there was no impact on our VfM approach. Further detail is set out on page 6.</p> <p>Restrictions on non-essential travel has meant both Authority and audit teams have had to work remotely including, remote accessing financial systems, video calling, alternative procedures for the physical verification of assets and completeness and accuracy of information produced by the entity.</p> <p>Inevitably the remote working has impacted on delivery and additional time and resources have been necessary on both sides to complete the work in accordance with the new extended reporting timetable.</p>
Financial Statements	<p>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:</p> <ul style="list-style-type: none"> • give a true and fair view of the financial position of the Authority and its 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. <p>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Our audit work was completed from June to September and our findings are summarised on pages 6 to 13. We have identified one adjustment to the financial statements that has resulted in a £0.4m change to the Authority's Balance Sheet (NB: per Appendix C, there is also a corresponding increase in Other Comprehensive Income, however this is "below the line" and therefore does not affect the Authority's overall financial performance). Audit adjustments are detailed in Appendix C. 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.</p> <p>Our work is substantially complete and there are no further matters of which we are aware that would require modification of our proposed audit opinion or material changes to the financial statements, subject to the outstanding matters outlined on page 5 ("Audit Approach")</p> <p>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation. The financial statements we have audited is up until 31 March 2019 which was prior to the outbreak of the Covid-19 coronavirus pandemic.</p> <p>Our anticipated audit report opinion will be unqualified including an Emphasis of Matter paragraph, highlighting a material uncertainty in relation to the valuation of PPE as a result of wider economic uncertainty stemming from the impact of the Covid 19 pandemic. Further details are provided later on in the report however it should be noted that this is a sector wide issue and is not indication of any control issues at the Shropshire and Wrekin Fire and Rescue Authority.</p>

Headlines (continued)

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 updated our Vfm risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We did not identify any new Vfm risks in relation to Covid-19

We therefore anticipate issuing an unqualified value for money conclusion. Our findings are summarised on page 16.

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 and timely collaboration provided by the finance team and other staff during these unprecedented times.

Audit approach

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 have been discussed with management and ETAP.

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 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 substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Standards Audit and Performance Committee meeting on 24 September 2020, as included within the Committee papers. These outstanding items include:

- Receipt and review of a small number of additional expenditure sample items (in relation to operating expenditure and Firefighter's benefits payable);
- Discussion with the Actuary in relation to experience items and duration of liabilities in relation to the calculation of the LGPS liability
- Completion of alternative procedures on current investment balances;
- Receipt of the Assurance Letter from the Pension Fund external auditor to admitted body auditors;
- Receipt of management representation letter;
- Updating our post balance sheet events review to the date of signing the opinion; 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. Materiality levels remain the same as reported in our audit plan. We detail in the table below our assessment of materiality for Shropshire and Wrekin Fire and Rescue Authority.

	Authority Amount (£k)	Qualitative factors considered
Materiality for the financial statements	470	Financial performance of the Authority focussing on the cost of services.
Performance materiality	353	Quality of working papers in prior year and Authority response to audit processes.
Trivial matters	24	The amount below which matters would be considered trivial to the reader of the accounts.
Materiality for specific transactions, balances or disclosures	50	Materiality has been reduced for remuneration disclosures to £50k due to its sensitive nature and public interest.

Significant audit risks

Risks identified in our Audit Plan

Covid- 19

The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to:

- Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation
- Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates
- Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and
- Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.

We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.

Auditor commentary

We:

- worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported. The draft financial statements were provided on 15 June 2020;
- liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Authority property valuation expert;
- evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic;
- evaluated whether sufficient audit evidence could be obtained through remote technology;
- evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations ;
- evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment;

Significant audit risks

Risks identified in our Audit Plan

ISA240 revenue risk – The revenue cycle includes fraudulent transactions (Rebutted)

Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.

This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

Auditor commentary

Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we determined that the risk of fraud arising from revenue recognition could be rebutted, because:

- there is little incentive to manipulate revenue recognition;
- opportunities to manipulate revenue recognition are very limited; and
- the culture and ethical frameworks of local authorities, including Shropshire & Wrekin Fire and Rescue Authority, mean that all forms of fraud are seen as unacceptable.

Therefore, we did not consider this to be a significant risk for Shropshire and Wrekin Fire and Rescue Authority.

There were no changes to our assessment as reported in the audit plan that we need to bring to your attention.

Management override of controls

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. . The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.

We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, this was one of the most significant assessed risks of material misstatement.

We:

- 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 and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence; and
 - evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions
- Our audit work has not identified any significant issues in respect of management override of controls.

Significant audit risks

Risks identified in our Audit Plan

Valuation of land and buildings

The Authority revalues its land and buildings on an annual basis to ensure that the carrying value is not materially different from the current value at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£25 million) and the sensitivity of this estimate to changes in key assumptions. Management have engaged the services of a valuer to estimate the current value as at 31 March 2020.

We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement

As a result of Covid-19 and advice from RICS valuers who have stated in their reports that there is a material uncertainty in relation to PPE valuation.

Auditor commentary

We:

- Evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation expert and the scope of their work
- Evaluated the competence, capabilities and objectivity of the valuation expert
- Wrote to the valuer to confirm the basis on which the valuation was carried out to ensure the requirements of the Code were met
- Challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding
- Tested the full valuation at 31 March 2020 to understand the information and assumptions used in arriving at any revised valuations
- Tested revaluations made during the year to see if they had been input correctly into the Authority's asset register

Due to the outbreak of Covid-19 market activity is being impacted in many sectors. The Authority's valuers have considered that less weight can be attached to previous market evidence to inform their opinions of value. They have therefore reported to the Authority on the basis of 'material valuation uncertainty'

The Authority have included relevant wording within the Financial Statements in relation to material uncertainty and we will include this within our Emphasis of Matter to draw this to the attention of the reader.

In addition to this, we noted one issue which required adjustment during our testing of revaluations. We noted that the building proportions used by the valuer for the purposes of calculating the valuation of one of the entity's main fire stations was incorrect. The Authority agreed to amend and obtain a second valuation for this particular asset which resulted in a £0.4m increase to the value of Land and Buildings in the Authority's Balance Sheet and a corresponding increase in the Revaluation Reserve held against that asset. This is an unrealised gain on the value of the site and therefore does not impact on the Authority's financial performance in year. Further detail on the relevant accounting entries is provided in Appendix C.

Significant audit risks

Risks identified in our Audit Plan

Valuation of the pension fund net liability Fire Fighter and Local Government Pension Scheme

The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£232 million in the Authority's 2019/20 balance sheet) and the sensitivity of the estimate to changes in key assumptions.

We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.

Auditor commentary

The Authority's total net pension liability at 31 March 2019 is £232m (PY £226m) comprising the Local Government Pension Scheme (LGPS) and the Fire Fighters Pension schemes (unfunded) .

The Authority uses Mercers for both Pension Schemes to provide an actuarial valuation of the Authority's assets and liabilities derived from these schemes. A full actuarial valuation is required periodically. The latest full actuarial valuation was completed in 2019. 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..


We have

- updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is 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 actuaries to estimate the liabilities;
- tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuaries;
- 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
- reviewed the inclusion of remedy within the actuary report
- LGPS - requested assurances from the auditor of Shropshire County Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

As at the time of drafting, we await responses to our request for assurance from the auditors of Shropshire County Pension Fund. We do not anticipate that this information will be provided before the end of September and we not issue our audit opinion until we have received and considered it.

A discussion has also been arranged with the Authority's Actuary to clarify issues in relation to "experience" items and the duration of liabilities in relation to the calculation of the LGPS liability. We anticipate that we will have received this information ahead of the Audit Committee meeting and will provide a verbal update.

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Land and Buildings – Other - £25m	<p>Other land and buildings comprises of Fire Stations, HQ and workshops which are classed as 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.</p> <p>The Authority has engaged an external valuer to complete the valuation of properties as at 31 March 2020. A full valuation of all land and buildings has been undertaken for 2019/20. The valuation of properties valued by the valuer has resulted in a net decrease of £801k. The total year end valuation of Other land and buildings was £25,177k (2018/19 £25,978k).</p> <p>In line with RICS guidance, the Authority's valuer disclosed a material uncertainty in the valuation of the Authority's land and buildings at 31 March 2020 as a result of Covid-19. The Authority has included disclosures on this issue in Note 15.</p>	<p>We have:</p> <ul style="list-style-type: none"> evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work evaluated the competence, capabilities and objectivity of the valuation expert written to the valuers 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 <p>Conclusion</p> <p>As referred to earlier in the report, we noted one issue from our substantive testing of gross internal area information used as inputs for the valuation calculation. However, this issue has been rectified and we are satisfied that the overall process and methodology for making the estimate is sound.</p>	 Green

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 estimates and judgements

Accounting area **Summary of management’s policy** **Auditor commentary** **Assessment**

Fire Fighter Net pension liability – £223.5m

The Authority’s total net pension liability for Fire Fighter Pensions at 31 March 2020 is £223.5m (PY £217.4m) comprising of all Fire Fighter Pension Schemes. The Authority uses GAD to provide actuarial valuations of the Authority’s assets and liabilities derived from these schemes.

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 return .Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.

There has been a £6.0m net actuarial loss during 2019/20.

We have

- Undertaken an assessment of management’s expert
- Reviewed and assessed the actuary’s roll forward approach taken,
- Used an auditors expert (PWC) to assess the actuary and assumptions made by the actuary

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.3%	2.3 – 2.4%	●
Pension increase rate	2.1%	2.1%	●
Salary growth	3.6%	3.35%-3.6%	●
Mortality – Longevity at 60 for future pensioners - Male	28.5 years	23.5 – 24.3	●
Mortality – Longevity at 60 for future pensioners - Female	30.5 years	25.6 – 26.3	●

●
Green

Reviewed

- the completeness and accuracy of the underlying information used to determine the estimate
- Impact of any changes to valuation method
- Reasonableness of the Authority’s share of LPS pension assets.
- Reasonableness of increase/decrease in estimate
- Adequacy of disclosure of estimate in the financial statements

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 estimates and judgements

Accounting area	Summary of management’s policy	Auditor commentary	Assessment																												
Local Government Net pension liability – £8.7m	<p>The Authority’s total Local Government net pension liability at 31 March 2020 is £8.7m (PY £8.2m) comprising of Staffordshire pension Fund Local Government pension scheme obligations. The Authority uses Hyman Roberts to provide actuarial valuations of the Authority’s assets and liabilities derived from this scheme. A full actuarial valuation is required every three years.</p> <p>The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy ,discount rates ,salary growth and investment return .Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £0.5m net actuarial loss during 2019/20.</p>	<p>We have</p> <ul style="list-style-type: none"> Undertaken an assessment of management’s expert Reviewed and assessed the actuary’s roll forward approach taken, Used an auditors expert (PWC) to assess the actuary and assumptions made by the actuary <table border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.4%</td> <td>2.4%- 2.3%</td> <td>●</td> </tr> <tr> <td>Pension increase rate</td> <td>2.1%</td> <td>2.1%</td> <td>●</td> </tr> <tr> <td>Salary growth</td> <td>3.35%</td> <td>3.35-3.6%</td> <td>●</td> </tr> <tr> <td>Mortality – Longevity at 60 for future pensioners - Male</td> <td>24.2 years</td> <td>22.5 – 24.7</td> <td>●</td> </tr> <tr> <td>Mortality – Longevity at 60 for future pensioners - Female</td> <td>26.6 years</td> <td>25.9 – 27.7</td> <td>●</td> </tr> <tr> <td>Duration of liabilities</td> <td>18 years</td> <td>15-22 years</td> <td>●</td> </tr> </tbody> </table> <p>Reviewed</p> <ul style="list-style-type: none"> the completeness and accuracy of the underlying information used to determine the estimate Impact of any changes to valuation method Reasonableness of the Authority’s share of LPS pension assets. Reasonableness of increase/decrease in estimate Adequacy of disclosure of estimate in the financial statements 	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.4%	2.4%- 2.3%	●	Pension increase rate	2.1%	2.1%	●	Salary growth	3.35%	3.35-3.6%	●	Mortality – Longevity at 60 for future pensioners - Male	24.2 years	22.5 – 24.7	●	Mortality – Longevity at 60 for future pensioners - Female	26.6 years	25.9 – 27.7	●	Duration of liabilities	18 years	15-22 years	●	<p>Green</p>
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Assessment

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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

Auditor commentary

Management's assessment process

Management has produced an initial assessment in relation to going concern as follows:

- Cash flow forecast to March 2021
- Medium term financial planning, including scenario testing and review of the adequacy and potential use of reserves

The audit team was satisfied that management's going concern assessment was detailed and robust. Although some questions were raised in relation to the administrative processes behind the forecast we are satisfied that the Authority has gone through a sufficiently robust process to satisfy itself that it remains a going concern for the short to medium term.

Work performed

We have

- Reperformed and reviewed the underlying assumptions of the Authority's cash flow forecast
- Reviewed other medium term financial planning documents to assess robustness of financial position.

In February 2019, the Authority produced a five year budget forecast which outlined a revenue surpluses in each year between 19/20 and 23/24. Furthermore, a statement on adequacy of reserves estimated that, at the end of the 3 year period to March 2022, the Authority would hold approximately £3.2m in useable reserves (a significant reduction from the £15.5m held at the end of 2018/19 as a result of expenditure on major capital projects). Furthermore, we note that the Authority held just under £20m in cash and cash equivalents as at 31 March 2020.

We have therefore reviewed cash flow forecasting produced by the Authority and applied scrutiny to the underlying assumptions which underpin its financial forecasting.

Concluding comments

Overall, our view is that the Authority has robust medium term planning processes and has built up a significant quantity of cash and cash equivalents (and corresponding reserves) to both enable it to carry out planned major capital works on one of its core stations as well as allow a sufficient reserve and cash balance to provide sufficient headroom against the impacts of Covid19.

Clearly the pandemic has been a factor in both the Authority's thinking going forward as well as the audit team's work from a going concern and value for money perspective. However, the Authority's income streams (predominantly local taxation) and activity levels are less susceptible to change as a result of the pandemic than, for example, a local council which may be more reliant on fees and charges income (such as car parking). We are also aware that a moderate amount of funding has been made available from central government to mitigate additional risks associated with the pandemic.

We are therefore of the view that the going concern assertion is likely to be appropriate for the Authority and will not include a material uncertainty in this area within our audit report.

Other matters for communication

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	Auditor commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit Committee and have not been made aware of any material fraud issues during the year.
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 Council, which is included in the Audit Committee papers.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to its banking and investment providers. This permission was granted and the requests were sent. Most of these requests were returned with positive confirmation, however one request was not received so we are in the process of undertaking alternative procedures on that balance and will provide a verbal update to the Committee.
Disclosures	Our review found no material omissions in the financial statements. A small number of disclosure adjustments were made to the financial statements, the most important of which are outlined in Appendix C
Audit evidence and explanations/significant difficulties	All information and explanations requested from management was provided.

Other responsibilities under the Code

Issue	Commentary
Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect.</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> • 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 <p>We have nothing to report on these matters.</p>
Specified procedures for Whole of Government Accounts	<p>Across the sector, we are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>However, in the case of the Authority, no work is required as the entity is below the audit threshold as determined by the NAO.</p>
Certification of the closure of the audit	<p>We intend to certify the closure of the 2019/20 audit of Shropshire and Wrekin Fire and Rescue Authority in the audit report.</p>

Value for Money

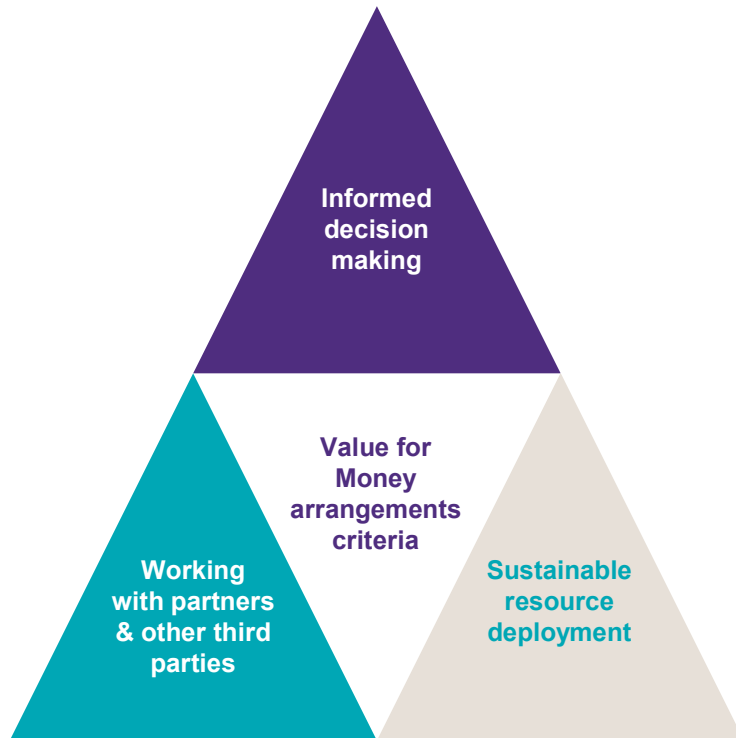
Background to our VFM approach

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 April 2020. 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 April 2020, taking into account the impact of the outbreak of the Covid 19 pandemic. We did not identify any significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. This was communicated to you via our Audit Plan

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.

We therefore anticipate issuing an unqualified VFM opinion.

Our work

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

As detailed at the previous slide we have assessed the Authority's arrangements under the criteria outlined by the NAO and have not identified any significant risks.

Overall conclusion

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

Significant difficulties in undertaking our work

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

Significant matters discussed with management

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

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 Council'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 have implemented policies and procedures to meet the requirements of the Financial Reporting Council'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 May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.




Details of fees charged are detailed in Appendix D

Action plan

We have identified two 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 2020/21 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	<p>Debtor & Creditor balances within the General Ledger</p> <p>Since the move to the new finance system during the prior period, the way in which the finance team produces reports for the purpose of sample selection has changed. Currently, Agresso posts transactions on a cumulative basis in regard to these accounts and does not match off receipts against open items. Therefore, whilst this will generate a correct closing balance, it can be challenging for external audit to obtain a “clean” balance for sampling purposes. Furthermore, as the level of transactions in these accounts builds up over subsequent years, it may become more challenging for the finance team to track outstanding balances and perform balance sheet reconciliations to ensure the balance is correct.</p>	<p>We recommend that management further explore the reporting capabilities of the finance system in order to identify a straightforward way to produce clean “memo” accounts for the purposes of audit and balance sheet reconciliations.</p> <p>Management response</p> <p>We have discussed this with the auditors and agreed that that transactions on debtors and creditors will be matched and the accounts cleaned up. This is possible due to the relatively short time that we have been active on the Agresso system</p>
 Medium	<p>Cash flow forecasting</p> <p>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.</p>	<p>We recommend that management extend the cash flow forecast period to a period of 12 months after the likely sign off date of the audit opinion.</p> <p>Management response</p> <p>Unfortunately this is a recommendation that we believed to be complete; due to lockdown it was overlooked and will be implemented immediately</p>

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 the Authority's 2018/19 financial statements, which resulted in 4 recommendations being reported in our 2018/19 Audit Findings report. We are pleased to report that management have implemented three of our four recommendations. One item remained outstanding for implementation as at the report date, as detailed below and in Appendix A.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	The Authority held a debtor balance of £90k due from its subsidiary, SFRMS Ltd., which we judged to be unrecoverable and recommended that the balance be written off.	The balance was written off in 2019/20.
✓	During the 2018/19 audit we were unable to obtain four declarations of interest for members and senior management, posing a risk to the completeness of the related party transactions disclosure.	We obtained a full set of returns in 2019/20.
✓	In 2018/19 we identified that the Authority had not notified the LGPS scheme administrators of a transfer into the Authority's scheme membership which was not included in the IAS 19 statement produced by the Actuary and related disclosures.	We identified no such issues in 2019/20.
X	We identified that the Authority's detailed cash flow forecasting for the purposes of going concern review was not extended for a full 12 months following the likely date of the audit opinion.	Per Appendix A, we note that this remained an issue within the 2019/20 working papers and have made a recommendation accordingly.

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 2020.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Valuation of fire station updated to reflect amended gross internal area.		£389k	
Corresponding increase in the revaluation reserve. As this is an "unrealised" gain, this is a balance sheet movement and therefore does not impact the overall financial performance. However, the increase in the revaluation reserve will also show "below the line" on the CIES as part of Other Comprehensive Income to ensure the movement on reserves balances within the core statement.		(£389k)	
Overall impact	£0	£0	£0

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?
Covid 19 disclosures	The audit team identified a requirement for additional disclosures in relation to the pandemic.	Our recommendation was to include enhanced disclosures around the market volatility and related estimation uncertainty caused by the pandemic, including references to the RICS Coronavirus Practice alert and related material uncertainty disclosures in the valuation reports received by the Authority. Additional disclosures were made at the accounting policies, PPE and Post Balance Sheet Events notes.	✓
Senior Officers' remuneration and Related Parties	The audit team identified a small number of administrative errors in the production of these notes.	As described, the notes were amended to correctly reflect underlying data. We are satisfied that the issues identified related to admin issues during accounts preparation as opposed to underlying data issues.	✓

Impact of unadjusted misstatements (including the prior period)

No unadjusted misstatements have been identified in the current or prior periods.

Fees

We confirm below our final fees charged for the audit.

Audit fees	Proposed fee	Final fee
Authority Audit	26,496	26,496
Total audit fees (excluding VAT)	£26,496	£26,496

