

The Annual Audit Letter for Shropshire & Wrekin Fire & Rescue Authority

Year ended 31 March 2020

3 December 2020



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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 & Wrekin Fire & Rescue Authority (the Authority) for the year ended 31 March 2020.

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 Standards, Audit & Performance Committee as those charged with governance in our Audit Findings Report on 24 September 2020.

Our work

Materiality	We determined materiality for the audit of the Authority's financial statements to be £470,000, which is approximately 2% of the Authority's gross cost of services.
Financial Statements opinion	We gave an unqualified opinion on the Authority's financial statements on 26 November 2020. We included an emphasis of matter paragraph in our report in respect of the uncertainty over valuations of the Authority's land and buildings given the Coronavirus pandemic. This does not affect our opinion that the statements give a true and fair view of the Authority's financial position and its income and expenditure for the year.
Whole of Government Accounts (WGA)	We completed work on the Authority's consolidation return following 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 Council'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 26 November 2020.

Certificate We certified that we have completed the audit of the financial statements of Shropshire & Wrekin Fire & Rescue Authority in accordance with the requirements of the Code of Audit Practice on 26 November 2020.

Working with the Authority

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.

The finance and audit teams have also had to consider managing staff sickness, access to systems and team capacity. However, in practice we found that absence was limited over the summer and both teams were able to effectively manage the remote working process.

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
November 2020

Audit of the Financial Statements

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 group financial statements to be £470,000, which is 2% of the Authority's gross cost of services. We used this benchmark as, in our view, users of the Authority's financial statements are most interested in where the Authority has spent its revenue in the year.

We also set a lower level of specific materiality of £50,000 for senior officer remuneration to reflect the additional sensitivity in this area.

We set a lower threshold of £24,000, above which we reported errors to the Standards, Audit & Performance 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 to check it is 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 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 Financial Statements

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>Covid-19</p> <p>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, and 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.</p>	<p>We:</p> <ul style="list-style-type: none"> 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; 	<p>Apart from the issue noted concerning land and buildings valuations (referred to in our emphasis of matter paragraph and which we discuss on the next page) we do not have any concerns to report in relation to this risk.</p>
<p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override 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.</p> <p>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.</p>	<p>We:</p> <ul style="list-style-type: none"> 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 	<p>Our audit work has not identified any issues to report in respect of management override of controls.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

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	Findings and conclusions
<p>Valuation of land and buildings</p> <p>The Authority revalues its land and buildings sufficiently regularly (minimum every five years) basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£26 million) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used.</p> <p>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, and a key audit matter.</p>	<p>We:</p> <ul style="list-style-type: none"> • Evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts 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 valuations were carried out • Challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding of the Authority's valuer's report and the assumptions that underpin the valuation. • Tested revaluations made during the year to ensure they had been input correctly into the Authority's asset register • Evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end. 	<p>Due to the outbreak of Covid-19 market activity is impacted in many sectors. The Authority's valuers considered that less weight could be attached to previous market evidence to inform their opinions of value. They therefore reported to the Authority on the basis of 'material valuation uncertainty'</p> <p>The Authority included relevant wording within the Financial Statements in relation to material uncertainty and we included this within our audit opinion as an Emphasis of Matter to draw this to the attention of the reader.</p> <p>In addition to this, we found 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.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

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	Findings and conclusions
<p>Valuation of the pension fund net liability Fire Fighter and Local Government Pension Scheme</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>The Authority's total net pension liability at 31 March 2020 was £232m (PY £226m) comprising the Local Government Pension Scheme (LGPS) and the Fire Fighters Pension schemes (unfunded).</p> <p>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..</p> <p>We:</p> <ul style="list-style-type: none"> • 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; • undertook 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. 	<p>Our audit work did not find any issues to report in respect of the valuation of pensions liabilities.</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Authority's financial statements on 26 November 2020.

Preparation of the financial statements

The Authority presented us with draft financial statements in June in accordance with the agreed timescale, 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 financial statements

We reported the key issues from our audit to the Authority's Standards, Audit & Performance Committee on 24 September 2020.

In addition to the key audit risks reported above, we identified a small number of adjustments and recommendations through the course of the audit. We attach these as an Appendix to this Letter.

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 alongside the draft Statement of Accounts in June.

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 Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)

We carried out work in line with instructions provided by the NAO . We issued an assurance statement which confirmed the Council was below the audit threshold on 26 November 2020.

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of [name of Council] in accordance with the requirements of the Code of Audit Practice on 26 November 2020.

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 April 2020 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 risks where we concentrated our work.

Following on from that assessment and during the course of our audit, we did not identify any significant risks

As part of our Audit Findings report agreed with the Authority in September 2020, we agreed recommendations to address our findings.

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 2020.

A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	April 2020
Audit Findings Report	September 2020
Annual Audit Letter	December 2020

Fees

	Planned £	Actual fees £	2018/19 fees £
Statutory audit	26,496	26,496	21,996
Impact of Covid19 working arrangements	0	3,975	
Total fees	26,496	30,471	21,996

Audit fee variation

As outlined in our audit plan, the 2019-20 scale fee published by PSAA of £21,996 assumed the scope of the audit did not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following table.

Remote working due to the pandemic has increased both the elapsed time taken to complete the audit and the input required. We are proposing a 15% fee variation to cover these additional costs

Area	Reason	Fee proposed £
Pensions – IAS 19	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 to reflect this.	1,750
PPE Valuation – work of experts	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.	1,750
Raising the Bar	The FRC has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity.	1,000
Total		4,500



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