

The Audit Plan for Shropshire and Wrekin Fire & Rescue Authority

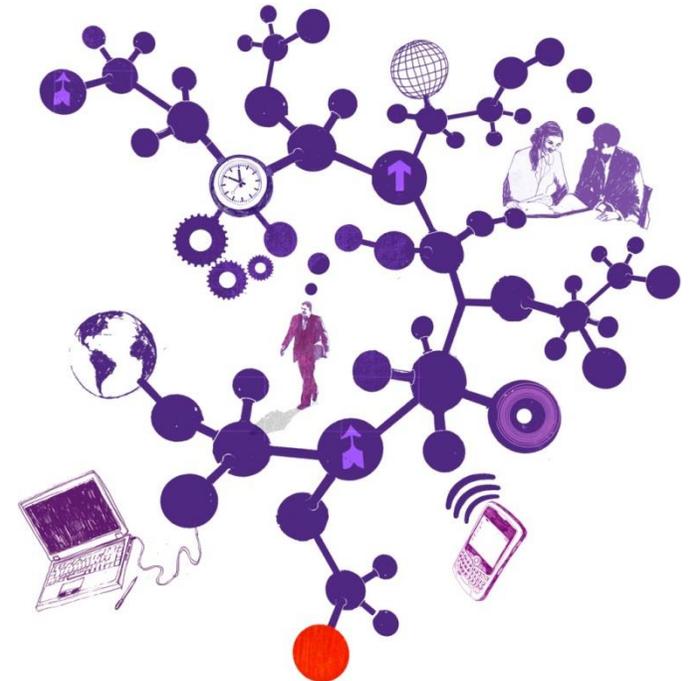
Year ended 31 March 2015

26 February 2015

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. 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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Understanding your business

In planning our audit we need to understand the challenges and opportunities the Council is facing. We set out a summary of our understanding below.

Challenges/opportunities

1. Fire-fighter's Pension Dispute

- Members of the Fire Brigades Union (SWFRA) have been undertaking regular strikes due to disputes over pensions and retirements.
- Puts significant pressures on SWFRA, both operationally and financially.



2. Financial Pressures

- SWFRA still faces significant challenges going forward. It needs to meet the challenge of balancing service delivery against the resources that are available.



3. Collaborative Working

- With Hereford and Worcester Fire and Rescue Authority for control room following joint receipt of grant monies. Whole time Fire-fighter's and Community Safety Officer on secondment to SWFRA.



4. Upcoming General Election

- Less than 100 days until the General Election which could see a change in government.
- Further cuts to public spending under a new government could impact SWFRA



5. Website Hack

- In November 2014 the Shropshire and Wrekin Fire & Rescue website was hacked. This did not have any impact upon the operational ability of SWFRA.



Our response

- We will discuss with management the impact that this is having on their operational and financial capacity.

- SWFRA's financial performance for 2014/15 will be reviewed as part of the external audit work. We will discuss performance against budget with management.
- We will assess the impact of the financial performance of SWFRA on the Value for Money conclusion.

- The collaborative working with HWFRA will be monitored through discussions with management and our review of the Authority's papers. We will assess the impact of this through our Value for Money conclusion.

- We will discuss with management their long term plans and how they feel this may be impacted by the upcoming General Election.

- We will discuss with management about how they have responded to us.
- As part of audit procedures we will complete a high level review of IT controls. This will include a consideration of the risks relating to financial reporting.

Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice ('the code') and associated guidance.

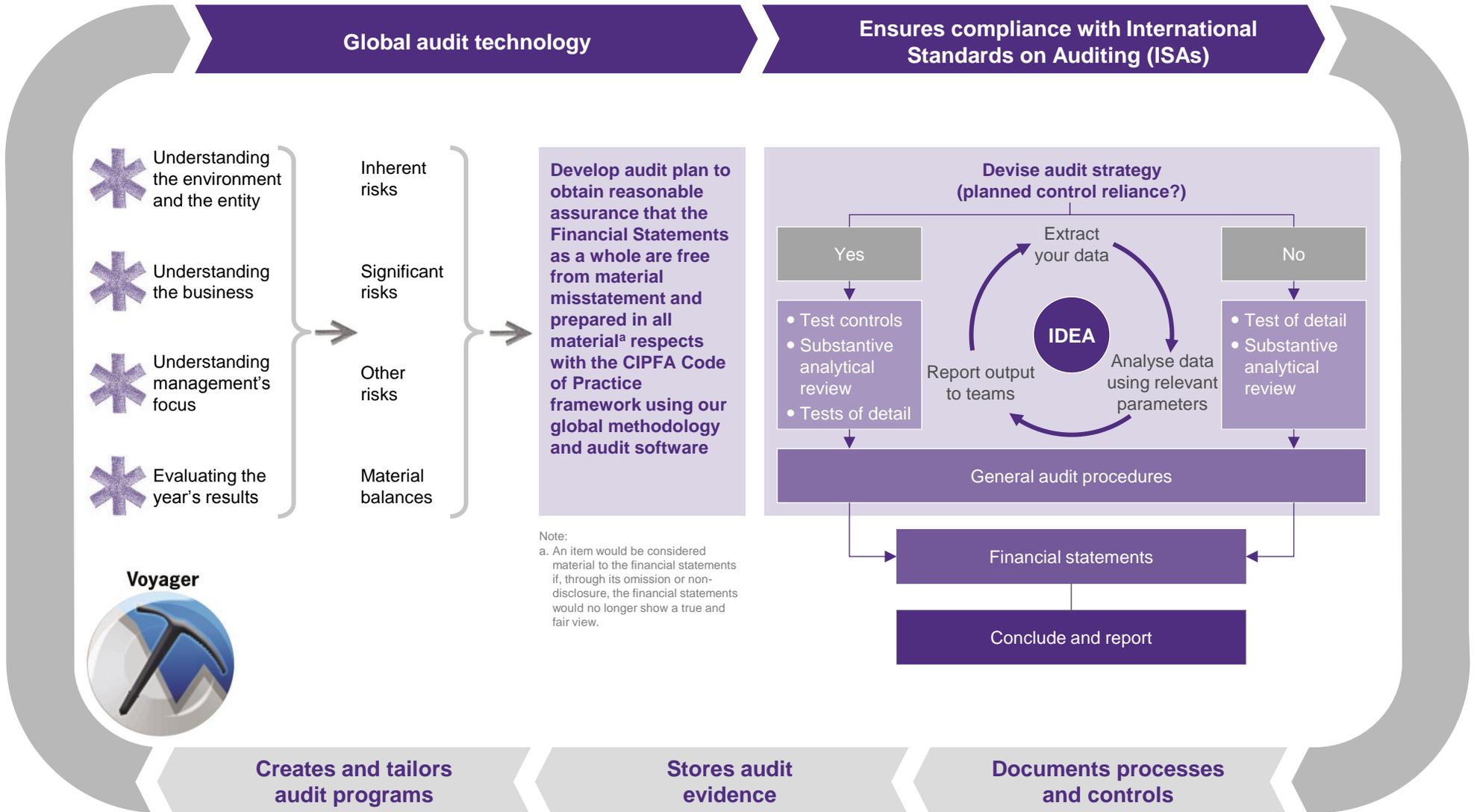
Developments and other requirements

<p>1. Financial reporting</p> <ul style="list-style-type: none"> • Changes to the CIPFA Code of Practice • Adoption of new group accounting standards (IFRS 10,11 and 12) 	<p>2. Legislation</p> <ul style="list-style-type: none"> • Local Government Finance settlement 	<p>3. Corporate governance</p> <ul style="list-style-type: none"> • Annual Governance Statement (AGS) • Explanatory foreword 	<p>4. Pensions</p> <ul style="list-style-type: none"> • During 2014/15 significant structural changes (i.e. introduction of career weighted average) for Local Government Pension Scheme (LGPS) came into force. • Changes to Firefighters' Pension due to be implemented from April 2015. 	<p>5. Financial Pressures</p> <ul style="list-style-type: none"> • Reduction in central government funding require managing service provision with less resource 	<p>6. Other requirements</p> <ul style="list-style-type: none"> • The Authority is required to submit a Whole of Government accounts pack on which we provide an audit opinion
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Our response

<p>We will ensure that</p> <ul style="list-style-type: none"> • the Council complies with the requirements of the CIPFA Code of Practice through discussions with management and our substantive testing • the impact of Shropshire Fire Risk Management Services Limited on SWFRA financial statements remains immaterial and does not need to be disclosed in line with accounting standards. 	<ul style="list-style-type: none"> • We will discuss the impact of the legislative changes with the Authority through our regular meetings with senior management and those charged with governance, providing a view where appropriate 	<p>We will review</p> <ul style="list-style-type: none"> • the arrangements the Authority has in place for the production of the AGS • the AGS and the explanatory foreword to consider whether they are consistent with our knowledge 	<ul style="list-style-type: none"> • We will discuss the impact of the 2014/15 changes to the Authority through our discussions with management. 	<ul style="list-style-type: none"> • We will review the Authority's performance against the 2014/15 budget, including consideration of performance against the savings plan • We will undertake a review of Financial Resilience as part of our VfM conclusion 	<ul style="list-style-type: none"> • We will carry out work on the WGA pack in accordance with requirements
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Our audit approach



Significant risks identified

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty' (ISA 315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	<p>Under ISA 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 Shropshire and Wrekin Fire & Rescue Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited as majority of revenue through precept income and grant income which are directly verifiable with paying bodies. • the culture and ethical frameworks of local authority bodies, including Shropshire and Wrekin Fire & Rescue Authority, mean that all forms of fraud are seen as unacceptable.
Management over-ride of controls	Under ISA 240 the presumption that the risk of management over-ride of controls is present in all entities.	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Gaining an understanding of the journal control environment <p>Further work planned:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Identification of journals followed by testing of journal entries.

Other risks identified

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other risks	Description	Audit Approach
Operating expenses	Creditors understated or not recorded in the correct period (Operating expenses understated)	Work completed to date; <ul style="list-style-type: none">We have documented the processes and controls in place around the accounting for Operating expenses and carried out walkthrough tests to confirm operation of controls.We have selected and tested an initial sample of operating expenses Further work planned; <ul style="list-style-type: none">Review cut-off for recognition of operating expenses at year endReview calculations of significant accruals and other itemsComplete testing of a sample of operating expenses
Employee remuneration	Employee remuneration accruals understated (Remuneration expenses not correct)	Work completed to date; <ul style="list-style-type: none">We have documented the processes and controls in place around the accounting for Employee remuneration and carried out walkthrough tests to confirm operation of controls.We have selected an initial sample of employee remuneration payments Further work planned; <ul style="list-style-type: none">Test a sample of employee remuneration paymentsReview the reconciliation between payroll and the general ledgerUndertake trend analysis of payroll figures to identify any areas requiring further investigation

Other risks identified (continued)

Firefighters' pensions benefit payments	Firefighters' pensions benefit payments incorrectly calculated (Liability understated)	<p>Work completed to date;</p> <ul style="list-style-type: none">• We have documented the processes and controls in place around the accounting for Fire fighters' pensions Benefit payments and carried out walkthrough tests to confirm operation of controls. <p>Further work planned;</p> <ul style="list-style-type: none">• Testing of a sample of fire-fighter's pensions benefit payments• Agreement of pensions disclosures in the financial statements to supporting evidence• If material, undertake further testing on deaths in retirement and transfer out of the scheme.
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Value for money

Value for money

The Code requires us to issue a conclusion on whether the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

Our VfM conclusion is based on the following criteria specified by the Audit Commission:

VfM criteria	Focus of the criteria
The organisation has proper arrangements in place for securing financial resilience	The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity

We are in the process of undertaking an initial risk assessment to identify areas of risk to our VfM conclusion. We will share our risk assessment with you and will tailor our detailed work to support the risk assessment.

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings report and in the Annual Audit Letter.

Results of interim audit work

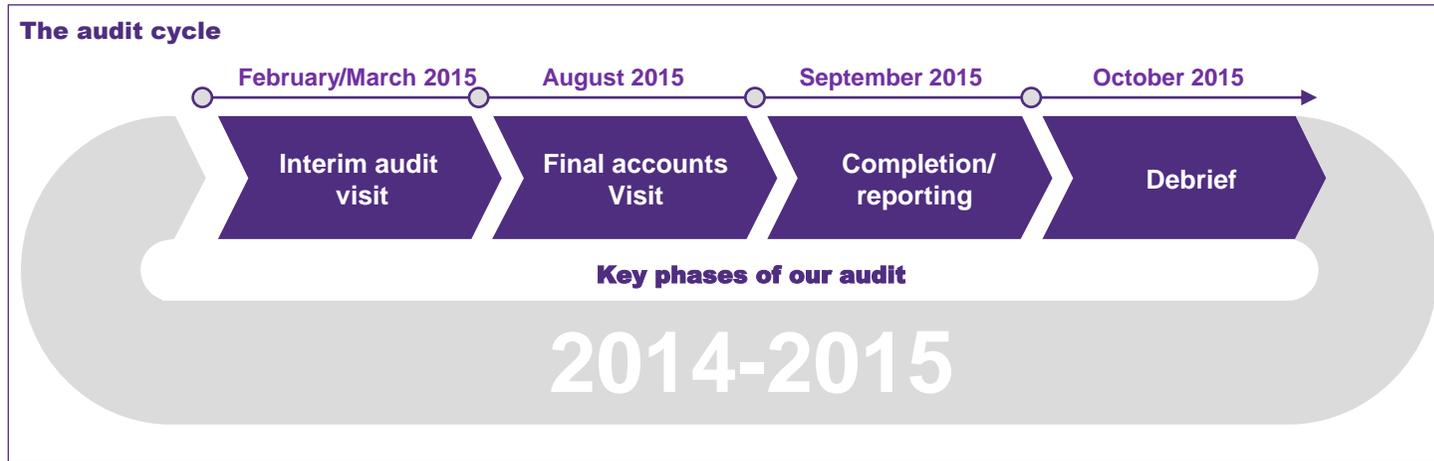
The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed and findings	Conclusion
Internal audit	<p>We have reviewed internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We also reviewed internal audit's work on the Authority's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.</p>	<p>Overall, we have concluded that the internal audit service continues to provide an independent and satisfactory service to the Authority and that internal audit work contributes to an effective internal control environment at the Authority.</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p>
Walkthrough testing	<p>We have completed walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented in accordance with our documented understanding.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p>
Entity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none">• Communication and enforcement of integrity and ethical values• Commitment to competence• Participation by those charged with governance• Management's philosophy and operating style• Organisational structure• Assignment of authority and responsibility• Human resource policies and practices	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements</p>

Results of interim audit work cont'd

	Work performed	Conclusion
Review of information technology controls	<p>The audit team performed a high level review of the general IT control environment, as part of the overall review of the internal controls system. We have also performed a follow up of the issues that were raised last year.</p> <p>IT (information technology) controls were observed to have been implemented in accordance with our documented understanding.</p>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.</p>
Journal entry controls	<p>We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy.</p>	<p>We have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.</p>
Early substantive testing	<p>Operating Expenditure: We have selected an initial sample of operating expenditure and tested the items selected.</p> <p>Employee Remuneration: We have selected an initial sample of employee remuneration payment and have begun testing on these transactions.</p>	<p>Operating Expenditure: No issues have been identified during initial testing. At final accounts stage a further sample will be selected and tested to ensure coverage of full financial year.</p> <p>Employee Remuneration: Testing on sample selected to be completed and further sample to be selected for testing to ensure coverage of full financial year.</p>

Key dates



Date	Activity
December 2014	Planning
February/March 2015	Interim site visit
23 April 2015	Presentation of audit plan to Audit Committee
August 2015	Year end fieldwork
August 2015	Audit findings clearance meeting with Joanne Coadey (Head of Finance)
17 September 2015	Report audit findings to those charged with governance (Audit & Performance Management Committee)
September 2015	Sign financial statements opinion

Fees and independence

Fees

	£
Audit of financial statements	38,088
Total fees (excluding VAT)	38,088

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities, have not changed significantly
- The Council will make available management and accounting staff to help us locate information and to provide explanations

Fees for other services

Service	Fees £
Employment Tax Advice	6,800

Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

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 Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

Communication of audit matters with those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

	Audit plan	Audit findings
Our communication plan		
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged.		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓



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