



The Annual Audit Letter for Devon and Somerset Fire and Rescue Authority

Year ended 31 March 2019

19 August 2019



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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 Devon and Somerset Fire and Rescue Authority (the Authority) for the year ended 31 March 2019.

This Letter is intended to provide a commentary on the results of our work to the Authority and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Authority's Audit and Performance Review Committee as those charged with governance in our Audit Findings Report on 19 August 2019.

Our work

Materiality	We determined materiality for the audit of the Authority's financial statements to be £1.73m, which is 2% of the Authority's gross revenue expenditure.
Financial Statements opinion	We gave an unqualified opinion on the Authority's financial statements on 30 July 2019.
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.
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 30 July 2019.
Certificate	We certified that we have completed the audit of the financial statements of Devon and Somerset Fire and Rescue Authority in accordance with the requirements of the Code of Audit Practice on 30 July 2019.

Respective responsibilities

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

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

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

Executive Summary

Working with the Authority

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

- An efficient audit – we delivered an efficient audit with you in July, delivering the audit before the 31 July deadline
- VFM – we provided you with assurance and feedback on your arrangements for delivering efficiency, effectiveness and economy
- Sharing our insight – we provided regular audit and performance review committee updates covering best practice and shared our thought leadership reports
- Providing training – we provided your teams with training on financial statements and annual reporting

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

Grant Thornton UK LLP
August 2019

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 Authority's financial statements to be £1.73m, which is 2% of the Authority's gross revenue expenditure. 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 for senior officer remuneration of £20k

We set a lower threshold of £87k above which we reported errors to the Audit and Performance Review 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 financial statements, the Narrative Report and Annual Statement of Assurance published alongside the financial statements to check it is consistent with our understanding of the Authority and with the financial statements included in the Annual Report 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>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. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness; obtained a full listing of journal entries and identified and subsequently tested any unusual journal entries for appropriateness; and evaluated the rationale for any changes in accounting policies and any significant unusual transactions or estimates. 	<p>Our audit work has not identified any issues in respect of management override of controls</p>
<p>Valuation of Property, Plant and Equipment 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 and the sensitivity of this estimate to changes in key assumptions. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assesses risks of material misstatement</p>	<p>As part of our audit work 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 the valuation experts and the scope of their work; evaluated the competence, capabilities and objectivity of the valuation expert; written 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; and tested, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Authority's asset register. 	<p>Our audit work has not identified any issues in respect of valuation of land and buildings.</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 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>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>As part of our audit work 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; • maintained ongoing communication around the impact of the McCloud /Sergeant court judgement on the pension liabilities reported by the Authority to ensure that these are materially stated and in line with proper accounting practices; • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • 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 actuary; and • 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. 	<p>Our audit work has not identified any issues in respect of valuation of the pension fund net liability.</p> <p>In particular, following the late clarification of the McCloud and Sergeant court judgements in respect of age discrimination, the Authority correctly accounted for the additional pension liabilities arising.</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Authority's financial statements on 30 July 2019.

Preparation of the financial statements

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

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Authority's Audit and Performance Review Committee on 19 July 2019.

In addition to the key audit risks reported above, we identified a control issue around the transfer of payroll services during the year, arising from lack of formal documentation of the checks undertaken as part of the payroll transfer.

The Authority has since obtained the final file used to check the payroll transfer.

Annual Governance Statement and Narrative Report

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

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

Whole of Government Accounts (WGA)

We carried out work on the Authority's Data Collection Tool in line with instructions provided by the NAO. We issued an assurance statement which confirmed the Authority was below the audit threshold/did not identify any issues for the group auditor to consider on 30 July 2019.

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of Devon and Somerset Fire and Rescue Authority in accordance with the requirements of the Code of Audit Practice on 30 July 2019.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

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

The risks we identified and the work we performed are set out overleaf.

As part of our Audit Findings report agreed with the Authority in July 2019, we agreed a recommendation to address our findings:

- The Authority should continue to develop realistic savings plans to bridge the budget gap, with appropriate ongoing monitoring and review to ensure that planned savings are delivered in line with expectations, taking mitigating actions as necessary.

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 2019.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Medium Term Financial Planning</p> <p>We reported in our audit plan that the Authority continues to face financial pressures with the 4 year settlement for 2016/17 to 2019/20 resulting in a 25% grant cut. The Authority has set a balanced budget for the 2019/20 financial year, with a Council Tax increase of 2.99% being agreed. The balanced budget position was achieved by reducing the revenue contribution to capital expenditure by £183k. The budget report also highlights that savings of between £8.4m and £14.5m will need to be made by 2023/24 depending on the level of future Council Tax increases.</p>	<ul style="list-style-type: none"> We reviewed the Authority's Medium Term Financial Plan, including the assumptions and savings included within the modelling. We also considered the work being done by the Authority to identify the additional savings that it needs to make over this period. The Authority's outturn for 2018/19 was £1.89m below budget, which was transferred to earmarked reserves. At 31 March 2019 the Authority has reserves of £38.87m, with £33.56m being in earmarked reserves and £5.3m in the general reserve. The Authority set a balanced budget for the 2019/20 financial year, with a Council Tax increase of 2.99% being agreed. Budgeted savings within this were £2.38m, consisting of £117k from authority pensions, £685k from budget management savings, which includes reduction of non-operational budget heads (£487k of this is recurring savings), £1.09m from service delivery re-structure, as a result of reviewing the number and role types of Station Managers across the service, £480k from holding vacancies whilst the Safer Together plan is established and reducing the revenue contribution to capital expenditure by £183k. The current MTFP runs to 2023/24 with the savings requirement over that period being between £8.4m and £14.5m depending on the level of future council tax increases. The MTFP is based on detailed modelling assumptions in the Financial Planning Model. These include inflation, pay and pension increases as well as anticipated reductions in grant funding, including the four year funding settlement accepted by the Authority. These assumptions have been reviewed and appear to be reasonable based on the evidence and information currently available. The MTFP is updated regularly as information on grant settlements become available, outcomes from the savings strategy are identified and any new cost pressures identified. 	<p>Auditor view</p> <p>The Authority's MTFP has a gap of up to £14.5m over the 2019/20- 2023/24 period. This represents a considerable challenge for the Authority given the savings it has already had to make in recent years. The Authority recognises that it must develop realistic savings plans to bridge the budget gap and there is evidence that such plans are being developed and implemented through the Sager Together Programme.</p> <p>On that basis, we have concluded that the risk was sufficiently mitigated and the Authority has proper arrangements in place for planning finances effectively to support the sustainable delivery of strategic priorities and using appropriate cost and performance information to support informed decision making.</p>

Value for Money conclusion (continued)

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Red One</p> <p>We reported in our audit plan that in 2016/17 the Authority sought external advice in response to concerns over cross-charging between Authority and Red One Ltd, and governance arrangements generally. Reports were received as a result that made a number of recommendations, although one report noted that many were similar to recommendations that had been made previously but not yet actioned. A further review of the governance arrangements at Red One has been carried out.</p>	<ul style="list-style-type: none"> • We reviewed the progress made by the Authority in response to the recommendations from the reports received in 2016/17, and the more recent review, to ensure that appropriate action has been taken to address the issues identified. • The last reported update to members in June 2019 demonstrates that the recommendations made in relation to Red One's governance and financial arrangements have now been taken forward, and changes implemented. The report shows that recommendations were being tracked in an action plan, and that most of the recommendations were implemented in 2017 and 2018. There is one action in relation to compliance law training which is currently in progress, and all other recommendations are marked as complete. The Authority has now approved a revised governance framework for Red One and revised arrangements for the Non Executive Board of the company, including the introduction of independent Non Executive Directors. • During the year, Devon and Somerset Fire and Rescue Authority commissioned an independent assessment of the validity of the Red One Business Plan for 2019-20. The recommendations from this report were assessed by officers, and used to aid the decision making process. The use of an external body to gain advice over the business plan produced by Red One, shows that Devon and Somerset Fire and Rescue Authority are taking appropriate measures to assess and obtain independent assurance over the financial information provided by Red One. The Authority's continued assessment of Red One's performance shows an appropriate level of scrutiny over the financial and governance arrangements. 	<p>Auditor view</p> <p>The Authority is making progress in implementing the recommendations in relation to Red One, with revised governance arrangements in place. The progress against the action plan and tracker shows that all except one of the recommendations have been implemented. Furthermore, an independent assessment of Red One has been undertaken in year, which shows an appropriate level of challenge and scrutiny over the financial and governance arrangements at the company.</p> <p>On that basis we are satisfied that the risk is being properly mitigated.</p>

A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	18 January 2019
Audit Findings Report	19 July 2019
Annual Audit Letter	19 August 2019

Fees

	Planned fees £	Actual fees £	2017/18 fees £
Statutory audit	26,041	26,041	33,820
Additional fees – see table alongside		1,500	
Total fees	26,041	27,541	33,820

Audit fee variation

As outlined in our audit plan, the 2018-19 scale fee published by PSAA of £26,041 assumed that the scope of the audit does not significantly change. There was one area where the scope of the audit has changed, which led to additional work being required. This is set out in the following table and was discussed at the Authority's Audit and Performance Review Committee on 19 July 2019.

Area	Reason	Fee proposed
Assessing the impact of the McCloud ruling	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we have reviewed the revised actuarial assessment of the impact on the financial statements along with any audit reporting requirements.	£1,500
Total		£1,500

Fee variations are subject to PSAA approval.



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