



# DEVON & SOMERSET FIRE & RESCUE AUTHORITY

**M. Pearson  
CLERK TO THE AUTHORITY**

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**To: The Chair and Members of the Audit &  
Performance Review Committee**

**(see below)**

**SERVICE HEADQUARTERS  
THE KNOWLE  
CLYST ST GEORGE  
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Date : 19 July 2018  
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## **AUDIT & PERFORMANCE REVIEW COMMITTEE**

**Friday, 27 July, 2018**

A meeting of the Audit & Performance Review Committee will be held on the above date, **commencing at 10.00 am in Committee Room B, Somerset House, Service Headquarters, Exeter** to consider the following matters.

M. Pearson  
Clerk to the Authority

## **SUPPLEMENTARY AGENDA NO. 1**

### ***PLEASE REFER TO THE NOTES AT THE END OF THE AGENDA LISTING SHEETS***

- a** Audit Findings for the Devon & Somerset Fire & Rescue Authority 2017-18 (Pages 1 - 28)

The Audit Findings for the Devon & Somerset Fire & Rescue Authority is a document prepared by Grant Thornton, the Authority's External Auditor. The document sets out the external audit findings and opinion on the Authority's Financial Statements for the year ended 31 March 2018. This document is now attached.

- b** Statement of Accounts 2017-18 (Pages 29 - 30)

Attached is a revised Page 40 of the Statement of Accounts as previously circulated with the agenda for this meeting. The revision corrects an error (highlighted by the external auditor) of initially omitting the word "(Restated)" in the 2016/17 column at the bottom of the page and relating to Operating Leases as Lessee.

**MEMBERS ARE REQUESTED TO SIGN THE ATTENDANCE REGISTER**

Membership:-

Councillors Healey MBE (Chair), Clayton, Mathews, Napper (Vice-Chair), Saywell, Vjeh and Wheeler

**NOTES**

<b>1.</b>	<b><u>Access to Information</u></b> Any person wishing to inspect any minutes, reports or lists of background papers relating to any item on this agenda should contact the person listed in the “Please ask for” section at the top of this agenda.
<b>2.</b>	<b><u>Reporting of Meetings</u></b> Any person attending a meeting may report (film, photograph or make an audio recording) on any part of the meeting which is open to the public – unless there is good reason not to do so, as directed by the Chair - and use any communication method, including the internet and social media (Facebook, Twitter etc.), to publish, post or otherwise share the report. The Authority accepts no liability for the content or accuracy of any such report, which should not be construed as representing the official, Authority record of the meeting. Similarly, any views expressed in such reports should not be interpreted as representing the views of the Authority.  Flash photography is not permitted and any filming must be done as unobtrusively as possible from a single fixed position without the use of any additional lighting; focusing only on those actively participating in the meeting and having regard also to the wishes of any member of the public present who may not wish to be filmed. As a matter of courtesy, anyone wishing to film proceedings is asked to advise the Chair or the Democratic Services Officer in attendance so that all those present may be made aware that is happening.
<b>3.</b>	<b><u>Declarations of Interests at meetings (Authority Members only)</u></b> If you are present at a meeting and you are aware that you have either a disclosable pecuniary interest, personal interest or non-registerable interest in any matter being considered or to be considered at the meeting then, unless you have a current and relevant dispensation in relation to the matter, you must: <ul style="list-style-type: none"><li>(i) disclose at that meeting, by no later than commencement of consideration of the item in which you have the interest or, if later, the time at which the interest becomes apparent to you, the existence of and – for anything other than a “sensitive” interest – the nature of that interest; and then</li><li>(ii) withdraw from the room or chamber during consideration of the item in which you have the relevant interest.</li></ul> If the interest is sensitive (as agreed with the Monitoring Officer), you need not disclose the nature of the interest but merely that you have a disclosable pecuniary interest of a sensitive nature. You must still follow (i) and (ii) above.  Where a dispensation has been granted to you either by the Authority or its Monitoring Officer in relation to any relevant interest, then you must act in accordance with any terms and conditions associated with that dispensation.  Where you declare at a meeting a disclosable pecuniary or personal interest that you have not previously included in your Register of Interests then you must, within 28 days of the date of the meeting at which the declaration was made, ensure that your Register is updated to include details of the interest so declared.
<b>4.</b>	<b><u>Part 2 Reports</u></b> Members are reminded that any Part 2 reports as circulated with the agenda for this meeting contain exempt information and should therefore be treated accordingly. They should not be disclosed or passed on to any other person(s). Members are also reminded of the need to dispose of such reports carefully and are therefore invited to return them to the Committee Secretary at the conclusion of the meeting for disposal.
<b>5.</b>	<b><u>Substitute Members (Committee Meetings only)</u></b> Members are reminded that, in accordance with Standing Order 37, the Clerk (or his representative) must be advised of any substitution prior to the start of the meeting. Members are also reminded that substitutions are not permitted for full Authority meetings.

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# Audit Findings

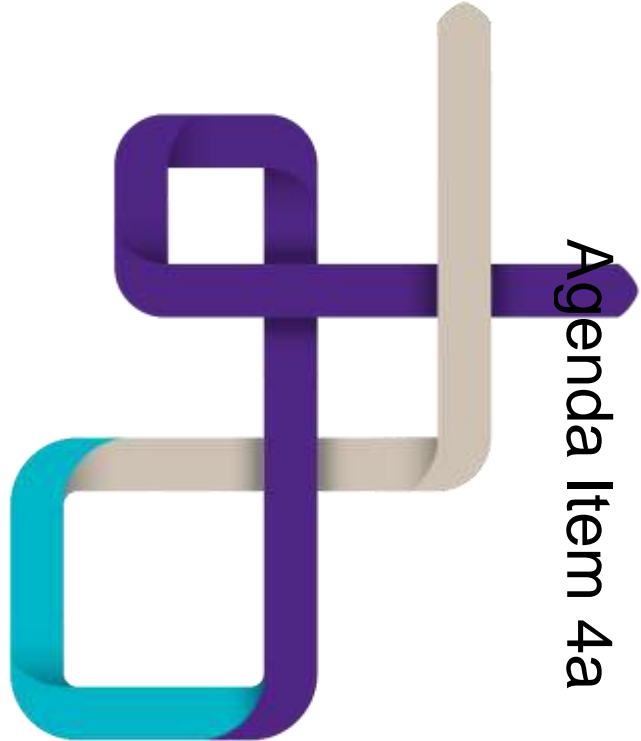
*Year ending 31 March 2018*

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Devon and Somerset Fire & Rescue Authority

24 July 2018

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Agenda Item 4a

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Your key Grant Thornton  
team members are:

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## Section

1. Headlines
2. Financial statements
3. Value for money
4. Independence and ethics

## Appendices

- A. Action plan
- B. Follow up of prior year recommendations
- C. Audit adjustments
- D. Fees
- E. Audit Opinion

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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

## Introduction

This table summarises the key issues arising from the statutory audit of Devon and Somerset Fire & Rescue Authority ('the Authority') and the preparation of the Authority's financial statements for the year ended 31 March 2018 for those charged with governance.

<p><b>Financial Statements</b></p>	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none"> <li>the Authority's financial statements 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 Code of Practice on Local Authority Accounting;</li> <li>other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), are consistent with the financial statements</li> </ul>	<p>We commenced our post-statements onsite visit at the beginning of July and as at 24 July 2018 our audit is substantially complete. Our findings are summarised on pages 4 to 10.</p> <p>We have identified no material errors and no adjustments to the financial statements that have resulted in a adjustment to the year end outturn position or balance sheet. We have recommended a number of adjustments to improve the presentation of the financial statements.</p> <p>The draft financial statements were presented for audit in accordance with the earlier timetable of the end of May 2018. The accounts were supported by good quality working papers and we received prompt responses to our queries.</p> <p>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>Subject to work outstanding being completed and queries being resolved, we anticipate issuing an unqualified audit in advance of the 31 July 2018 deadline, as detailed in Appendix E. These outstanding items are set out on page 4.</p> <p>We have concluded that the other information published with the financial statements, which includes the Annual Statement of Assurance and Narrative Report are consistent our knowledge of your organisation and with the financial statements we have audited.</p>
<p><b>Value for Money arrangements</b></p>	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none"> <li>the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion')</li> </ul>	<p>We have completed our risk based review of the Authority's value for money arrangements. We have concluded that Devon and Somerset Fire and Rescue Authority has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 11 to 13.</p>
<p><b>Statutory duties</b></p>	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"> <li>report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and</li> <li>certify the closure of the audit</li> </ul>	<p>We have not exercised any of our additional statutory powers or duties.</p> <p>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.</p>

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## Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

# Summary

## Overview of the scope of our audit

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance (in the case of Devon and Somerset Fire and Rescue Authority, the Audit and Performance Review Committee) 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.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), 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 risk based, and in particular included:

- An evaluation of the Authority's internal controls environment including its IT systems and controls;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

## Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion in advance of the 31 July 2018 deadline, as detailed in Appendix E. These outstanding items include:

- Completion of a number of outstanding items;
- Final review of the audit work
- receipt of management representation letter; 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 calculations have been adjusted to reflect the final set of financial statements received on 31 May 2018. We detail in the table below our assessment of materiality for Devon and Somerset Fire and Rescue Authority.

	Amount (£)	Qualitative factors considered
Materiality for the financial statements	1,578k	This equates to 2% of your 2017/18 gross expenditure for the year.
Performance materiality	1,183k	This equates to 75% of Materiality. 75% is the maximum which we are able to apply.
Trivial matters	79k	ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.
Materiality for specific transactions, balances or disclosures	27k	Senior Officers' Remuneration is a balance which require a lower materiality due to its sensitive nature..



# Significant audit risks

## Risks identified in our Audit Plan

## Commentary

1

### Improper revenue recognition

Under ISA 240 (UK) there is a 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 have determined that the risk of fraud arising from revenue recognition can be rebutted, because:

- there is little incentive to manipulate revenue recognition
- opportunities to manipulate revenue recognition are very limited
- The culture and ethical frameworks of local authorities, including Devon and Somerset Fire and Rescue Authority, mean that all forms of fraud are seen as unacceptable

Therefore we do not consider this to be a significant risk for Devon and Somerset Fire and Rescue Authority.

2

### 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 identified management override of controls as a risk requiring special audit consideration.

### Auditor commentary

We have performed the following work in respect of this risk:

- review of accounting estimates, judgements and decisions made by management
- testing of journal entries
- review of unusual significant transactions

Our audit work has not identified any issues in respect of management override of controls.

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# Significant audit risks

## Risks identified in our Audit Plan

## Commentary

3

### Valuation of property, plant and equipment

The Authority revalues its land and buildings on an annual basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.

We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.

### Auditor commentary

We have performed the following work in respect of this risk:

- Review of management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work
- Review of the competence, expertise and objectivity of any management experts used.
- Discussions with the Authority's valuer about the basis on which the valuation was carried out, challenging the key assumptions.
- Review and challenge of the information used by the valuer to ensure it was robust and consistent with our understanding.
- Testing of revaluations made during the year to ensure they were input correctly into the Authority's asset register
- Evaluation of the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value.

Our audit work in this area is still in progress and we will update the Audit and Performance Review Committee meeting with our findings.

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### Valuation of pension fund net liability

The Authority's LGPS pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.

We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.

### Auditor commentary

- We have performed the following work in respect of this risk:
- Identified the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement.
- Review of the competence, expertise and objectivity of the actuary who carried out the Authority's pension fund valuation.
- Gaining an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made.
- Review of the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary.

Our audit work has not identified any issues in respect of the valuation of the pension fund net liability.

# Reasonably possible audit risks

## Risks identified in our Audit Plan

## Commentary

6

### Employee remuneration

Payroll expenditure represents a significant percentage (76%) of the Authority's operating expenses.

As the payroll expenditure comes from a number of individual transactions there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention

### Auditor commentary

We have undertaken the following work in relation to this risk:

- evaluated the Authority's accounting policy for recognition of payroll expenditure for appropriateness
- documented our understanding of processes and key controls over the transaction cycle
- undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding
- Obtained the year-end payroll reconciliation and ensured that the amount reported in the accounts can be reconciled back to the ledger and through payroll reports
- Undertaken substantive analytical procedures on payroll costs to analyse movement on payroll expenditure and identify anomalies or areas for further audit focus

Our audit work in this area is substantially complete and we will update the Audit and Performance Review Committee meeting with our findings.

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### Operating expenses

Non-pay expenses on other goods and services also represents a significant percentage (18%) of the Authority's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs.

We identified completeness of non- pay expenses as a risk requiring particular audit attention:

### Auditor commentary

We have undertaken the following work in relation to this risk:

- evaluated the Authority's accounting policy for recognition of non-pay expenditure for appropriateness;
- gained an understanding of the Authority's system for accounting for non-pay expenditure and evaluate the design of the associated controls;
- Undertaken substantive testing on a sample of payments made after year end to identify unrecorded liabilities

Our audit work in this area is substantially and we will update the Audit and Performance Review Committee meeting with our findings

8

### Firefighters pension scheme

The Authority administers the firefighters pension schemes, with the Firefighters Pension Fund Account being included in the financial statements.

We identified completeness and accuracy of pension benefits payable as a risk requiring particular audit attention.

### Auditor commentary

We have undertaken the following work in relation to this risk:

- gained an understanding of the Authority's systems for calculating, accounting for and monitoring pension benefit payments and evaluated the design of the associated controls;
- Substantively test a sample of Fire Fighter Pension benefit payments covering the period 1 April 2017 to 31 March 2018 to ensure they have been accurately accounted for and in the correct period

Our audit work has not identified any issues in respect of the valuation of the Firefighters pension scheme.

# Internal Controls

We considered and walked through the internal controls for the significant and other risks identified as set out on page 5 to page 7.

The matters that we identified during the course of our audit are set out in the table below. 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.

These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.




	Assessment	Issue and risk	Recommendations
1.	●	<p><b>Evidence trail to support the approval of exit package</b></p> <p>The Authority established the General Purposes (GP) Committee with delegated authority to determine a staffing matter that ultimately resulted in an exit package being agreed and paid in 2017/18. At the GP Committee on 29 April 2017 a limit was set for the settlement, which is supported by a hand written note but not formal minutes.</p> <p>At a further meeting of the GP Committee on 6 June 2017, on advice from the Authority’s lawyers, we understand a higher level limit for the settlement was approved. This decision was not supported by any minutes, handwritten or otherwise, although there are some handwritten notes taken by the Director of Corporate Services. The settlement agreement was made in accordance with the decision made in the June meeting.</p> <p>The lack of formal minutes documenting the original and final approved settlement decision is a significant deficiency in the internal controls operating over decision making in this matter.</p>	<p><b>Auditor commentary</b></p> <ul style="list-style-type: none"> <li>• The GP Committee has delegated powers to undertake such decisions and both meetings were properly convened.</li> <li>• The decisions taken by the GP Committee in respect of this staffing matter was not, in our view, properly authorised.</li> <li>• The Authority must retrospectively approve the decision of the GP Committee in June 2017. We understand this retrospective approval of the minutes of the June 2017 GP Committee will be within the confidential (Part 2) session of the full Authority on 30 July 2018.</li> <li>• All Part 2 items should be formally minuted with sufficient detail in order to allow transparency and accountability of decision making in line with the Authority's Corporate Governance Code.</li> </ul>

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**Assessment**




- Significant deficiency
- Deficiency – risk of inconsequential misstatement

# Accounting policies

Accounting area	Summary of policy	Comments	Assessment
<b>Revenue recognition</b>	<ul style="list-style-type: none"> <li>Activity is accounted for in the year it takes place, not simply when cash payments are made or received.</li> <li>Revenue is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that the economic benefits of the transaction will flow to the Authority.</li> </ul>	<p>The Authority has invoiced Red One Ltd in 2017/18 for the secondment costs of a member of staff which related to 2013/14.</p> <p>The Authority only identified in 2017/18 that it had not recovered these costs. However it is unclear why Red One Limited should have been involved as it was an arrangement between the Authority and the seconding body.</p> <p>The Authority has received external advice in response to concerns over cross-charging between Authority and Red One Ltd, and governance arrangements generally. This highlights areas for improvement including cost recharges. Our review of progress in responding to these recommendations is set out on page 16.</p>	
<b>Judgements and estimates</b>	<ul style="list-style-type: none"> <li>Key estimates and judgements include:             <ul style="list-style-type: none"> <li>Useful life of PPE</li> <li>Revaluations</li> <li>Impairments</li> <li>Accruals</li> <li>Valuation of pension fund net liability</li> </ul> </li> </ul>	<p>We have reviewed the accounting areas where the Authority has exercised judgement and used estimates. We found that:</p> <ul style="list-style-type: none"> <li>Appropriate policies have been used</li> <li>Accounting policies have been adequately disclosed</li> <li>Areas where judgement had been used were supported by the work of an expert or a third party</li> </ul>	
<b>Other critical policies</b>		<p>We have reviewed the Authority's policies against the requirements of the CIPFA Code of Practice. The Authority's accounting policies are appropriate and consistent with previous years.</p>	

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## Assessment

-  Marginal accounting policy which could potentially be open to challenge by regulators
-  Accounting policy appropriate but scope for improved disclosure
-  Accounting policy appropriate and disclosures sufficient

# Other communication requirements

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	Commentary
① <b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We discussed matters in relation to fraud in our communications with management and the Audit and Performance Review Committee via our ISA240 letters. We have not been made aware of any significant incidents in the period and no other issues have been identified during the course of our audit procedures.</li> </ul>
② <b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We are not aware of any related parties or related party transactions which have not been disclosed.</li> </ul>
③ <b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>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.</li> </ul>
④ <b>Written representations</b>	<ul style="list-style-type: none"> <li>A standard letter of representation has been requested from the Authority, which is included in the Audit and Performance Review Committee papers.</li> </ul>
⑤ <b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We requested from management permission to send confirmation requests for bank and investment balances. This permission was granted and the requests were sent. The majority of these requests were returned with positive confirmation, however responses from Santander, Bank of Scotland, Lloyds and Nationwide have not as yet been received.</li> <li>We requested from management permission to send confirmation requests to the pension fund auditor. This permission was granted and the requests were sent. We have not yet received the final response from the pension fund auditor and will require this prior to issuing our opinion.</li> </ul>
⑥ <b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements</li> </ul>
⑦ <b>Matters on which we report by exception</b>	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> <li>If the Annual Governance Statement (Annual Statement of Assurance) does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit</li> <li>The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Authority acquired in the course of performing our audit, or otherwise misleading.</li> </ul> <p>We have nothing to report on these matters.</p>
⑧ <b>Specified procedures for Whole of Government Accounts</b>	<p>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> <ul style="list-style-type: none"> <li>Note that work is not required as the Authority does not exceed the threshold</li> </ul>

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# Value for Money

## Background to our VFM approach

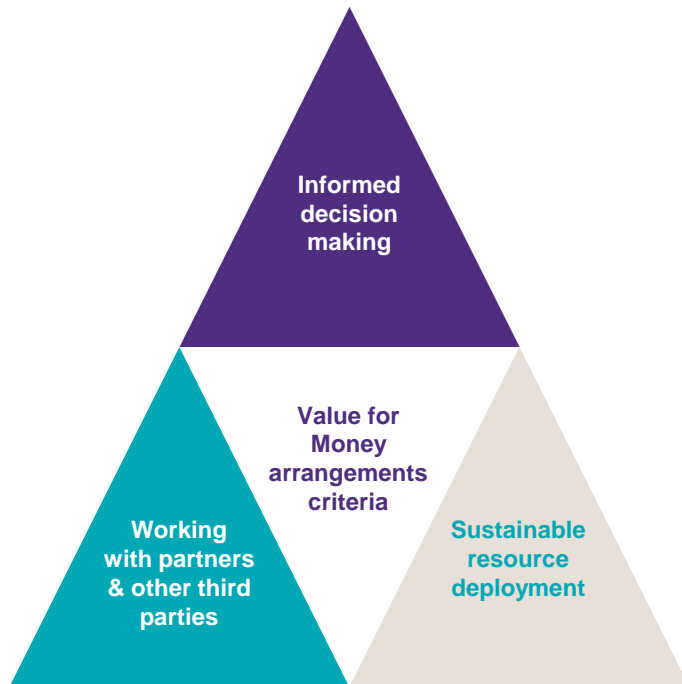
The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Authority has proper arrangements in place.

The guidance 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:

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## Risk assessment

We carried out an initial risk assessment in January 2018 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 27 February 2018.

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 carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

# Value for Money

## 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.

We have focused our work on the significant risks that we identified in the Authority's arrangements. In arriving at our conclusion, our main considerations were:

- Medium Term Financial Planning and the need to identify further savings in the medium term to balance the budget
- Red One and the need to improve governance arrangements as highlighted in a series of external reports

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work on pages 13 to 14.

## Overall conclusion

Based on the work we performed to address the significant risks, we concluded that:

- the Authority had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources.

The text of our report, which confirms this can be found at Appendix E.

## Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendation for improvement as follows.

Our recommendations and management's response to these can be found in the Action Plan at Appendix A

## 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.



## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

1

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Significant risk	Findings	Conclusion
<b>Medium Term Financial Planning</b> <ul style="list-style-type: none"> <li>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. In order to set a balanced budget for 2018/19 the Authority is proposing, as a short term solution, to reduce the revenue contribution to capital to bridge the budget gap. The budget report also highlights that savings of between £8.4m and £14.6m will need to be made by 2021/22 depending on the level of Council Tax increase.</li> </ul>	<p>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.</p> <p>The Authority's outturn for 2017/18 was £320k below budget, which was transferred to earmarked reserves. At 31 March 2018 the Authority has reserves of £37.2m, with £31.9m being in earmarked reserves and £5.3m in the general reserve (which at over 7% of the annual budget is in excess of the 5% target set by the Authority).</p> <p>The Authority set a balanced budget for the 2018/19 financial year, with a Council Tax increase of 2.99% being agreed. Budgeted savings within this were £711k, consisting of £441k from authority pensions, £206k from estates and £89k from debt charges. The balanced budget position was achieved by reducing the revenue contribution to capital expenditure by £1,289k.</p> <p>The current MTFP runs to 2021/22 with the savings requirement over that period being between £8.4m and £14.6m depending on the level of council tax increase. The MTFP is based on detailed modelling assumptions in the Financial Planning Model, which go beyond the reported MTFP into 2022/23. 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. The MTFP is updated regularly as a result of updated information on grant settlements, savings strategy and new cost pressures identified.</p>	<p>The Authority's MTFP has a gap of up to £14.6m over the 2019/20 - 2021/22 period. This represents a considerable challenge for the Authority given the savings it has had to make in recent years. The Authority must develop realistic savings plans to bridge the budget gap.</p> <p><b>On that basis we concluded 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.</b></p>

**Key findings**

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

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Significant risk	Findings	Conclusion
<p><b>Red One</b></p> <ul style="list-style-type: none"> <li>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.</li> </ul>	<p>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.</p> <p>The last reported update to members in December 2017 demonstrates that the recommendations made in relation to Red One’s governance and financial arrangements are now being taken forward. The report shows that recommendations are being tracked in an action plan. The Authority has now approved a revised governance framework for Red One and revised arrangements for the Non Executive Board of Red One, including the introduction of independent Non Executive Directors.</p>	<p>The Authority is making progress in implementing the recommendations in relation to Red One, with revised governance arrangements in place. Further efforts are required to ensure that all the issues identified are addressed and governance arrangements are fully effective at Red One. We will continue to monitor progress in this area as part of our 2018/19 VFM audit.</p> <p><b>On that basis we are satisfied that the risk is being properly mitigated.</b></p>

# Independence and ethics

## **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 confirm that 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 December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.



Details of fees charged are detailed in Appendix D

## **Audit and Non-audit services**




For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority. No non-audit services were identified.

# Action plan

We have made three recommendations to 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 2018/19 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
1	 <p data-bbox="337 425 938 589">The Authority established the General Purposes (GP) Committee with delegated authority to determine a staffing matter that ultimately resulted in an exit package being agreed and paid in 2017/18. At a GP Committee on 29/4/17 a limit was set for the settlement, which is supported by hand written notes but not formal minutes.</p> <p data-bbox="337 611 944 832">A further meeting of GP Committee on 6/6/17 approved a settlement up to a higher figure that that had been set in the April meeting, but this decision was not supported by any minutes, handwritten or otherwise although there are some handwritten notes taken by the Director of Corporate Services. The settlement agreement was made in accordance with the decision made in the June meeting.</p>	<ul data-bbox="980 425 1984 475" style="list-style-type: none"> <li>The Authority must retrospectively approve the decision of the General Purposes Committee in June 2017, at its meeting on 30 July 2018.</li> </ul> <p data-bbox="980 489 1239 511"><b>Management response</b></p> <ul data-bbox="980 532 1984 846" style="list-style-type: none"> <li>It is accepted that in this isolated case the formal public minutes were not a sufficient record of the decisions properly taken by the General Purposes Committee and confidential (Part 2) minutes of the General Purposes Committee held on 6 June 2017, detailing the settlement terms of the staffing matter in question, will be taken to the full Authority meeting on 30 July 2018 for retrospective approval.</li> <li>However, the description on page 8 of this report, that the decisions taken by the General Purposes Committee were not properly authorised, is not reflective of the circumstances surrounding the issue. The report confirms that the Committee had the delegated powers to make the decision in question, that the meetings were properly convened and that the settlement agreement was made in accordance with the decision made by the Committee on 6 June 2017.</li> </ul>
2	 <p data-bbox="337 875 938 975">The General Purposes Committee meetings held in April and June 2017 did not have detailed formal minutes of the Part 2 (Confidential) sections of the meetings recorded by the Authority.</p>	<ul data-bbox="980 875 1984 946" style="list-style-type: none"> <li>All Part 2 meetings should be formally minuted with sufficient detail recorded in order to allow transparency and accountability of decision making in line with the Authority's Corporate Governance Code.</li> </ul> <p data-bbox="980 968 1239 989"><b>Management response</b></p> <ul data-bbox="980 1011 1984 1113" style="list-style-type: none"> <li>The practice in the Authority is that all Part 2 items are formally minuted. However, it is recognised that in this case the formal public minutes of the General Purposes Committee meetings were not a sufficient record of the decisions that were properly taken by the Committee and that is being corrected as detailed above.</li> </ul>

## Controls

-  High – Significant effect on control system
-  Medium – Effect on control system
-  Low – Best practice

# Action plan

We have made three recommendations to 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 2018/19 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.

3	Assessment	Issue and risk	Recommendations
●		The Authority's MTFP has a gap of up to £14.6m over the 2019/20 - 2021/22 period. This represents a considerable challenge for the Authority given the savings it has had to make in recent years..	<p data-bbox="1058 508 1313 529"><b>Management response</b></p> <ul data-bbox="1058 544 1989 815" style="list-style-type: none"> <li data-bbox="1058 465 1887 486">• The Authority must develop realistic savings plans to bridge the budget gap</li> <li data-bbox="1058 544 1989 651">• A change and Improvement Plan has been prepared to address organisational risks including financial pressures and this will be considered by the Authority in July 2018. Once the strategic direction has been agreed, more detailed programme plans will be identified including resourcing requirements and benefits realisation.</li> <li data-bbox="1058 665 1989 751">• A Reserves Strategy has been developed which outlines how the change programme will be resourced in the short to medium term and identifies associated budget risks.</li> <li data-bbox="1058 765 1989 815">• Once of the underlying principals of the change programme is to meet the funding shortfall in the four year period to 2022/23.</li> </ul>

#### 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 Devon and Somerset Fire and Rescue Authority's 2016/17 financial statements, which resulted in 7 recommendations being reported in our 2016/17 Audit Findings report. We have followed up on the implementation of our recommendations below.

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	✓	<ul style="list-style-type: none"> <li>Senior finance officers (Treasurer and Head of Finance) should not have access to post journals.</li> </ul>	<ul style="list-style-type: none"> <li>We have confirmed that senior finance officers do not have access to post journals.</li> </ul>
2	✓	<ul style="list-style-type: none"> <li>Our journal testing identified four journals with insufficient backing documentation to supported them. All journals should be supported by sufficient backing documentation</li> </ul>	<ul style="list-style-type: none"> <li>Our journals testing in 2017/18 has not identified any journals without sufficient supporting documentation.</li> </ul>
3	✓	<ul style="list-style-type: none"> <li>The Authority should introduce a journal approval process on the finance system.</li> </ul>	<ul style="list-style-type: none"> <li>The Authority had planned to introduce an approval process on the finance system but this has not proved possible. A retrospective review process is in place as a compensating control.</li> </ul>
4	✓	<ul style="list-style-type: none"> <li>The Authority should review their policies on capitalisation of assets in order to ensure that smaller revenue items are not grouped together and recorded as capital expenditure.</li> </ul>	<ul style="list-style-type: none"> <li>The policy has been reviewed by the Authority and appropriate adjustments have been made to revenue and capital budgets reflecting this change.</li> </ul>
5	✓	<ul style="list-style-type: none"> <li>Management should consider performing periodic, formal reviews of the user accounts and permissions within Active Directory on at least an annual basis. The review should be a process that includes business functions and file shares to provide the confirmation of their users' requirements.</li> </ul>	<ul style="list-style-type: none"> <li>Information asset owners are identified with the information asset register and they have to provide an annual statement of assurance that covers access to assets. This covers Active directory permissions and systems, such as Integra, that use their own accounting methods. Integra Authorisation accounts and limits over £20k are reviewed annually. All leavers are removed from the Active Directory for which will automatically remove their Integra and FIMS permissions.</li> </ul>

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#### Assessment

- ✓ Action completed
- X Not yet addressed

## Follow up of prior year recommendations (continued)

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
6	X	<ul style="list-style-type: none"> <li>Given the criticality of data accessible through Capita Integra logs of information security events (i.e., login activity, unauthorised access attempts, access provisioning activity) created by these systems should be proactively, formally reviewed for the purpose of detecting inappropriate or anomalous activity. These reviews should ideally be performed by one or more knowledgeable individuals who are independent of the day-to-day use or administration of these systems.</li> </ul>	<ul style="list-style-type: none"> <li>The Authority has put together a business case for a protective monitoring system, which is progressing through the approval process. This is because the Authority do not have the resources for a manual review security event logs.</li> </ul>
7	X	<ul style="list-style-type: none"> <li>The Authority must assure itself that the recommendations in relation to cross-charging and governance arrangements at Red One Ltd have been appropriately implemented.</li> </ul>	<ul style="list-style-type: none"> <li>The Authority is in the process of implementing all of the recommendations in relation to Red One Limited and has an action plan tracking the progress.</li> </ul>

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### 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.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £' 000	Impact on total net expenditure £'000
<p><b>1 Revaluation of non-current assets</b>            Loss on revaluation of £852k has been recorded within 'Other Comprehensive Income and Expenditure', but should be recorded within Cost of Services. There is nil impact on Total Comprehensive Income and Expenditure, however this has the effect of overstating Other Comprehensive Expenditure and understating gross expenditure within Cost of Services.</p>	<p>852 – Cost of services</p> <p>(852) – Other comprehensive income and expenditure</p>		
<p><b>2 Senior Officer Remuneration</b>            Note 21.2 did not include the elements of remuneration reflected in the exit packages note for a senior officer who left the Authority in the year. The senior officer remuneration note should include the relevant elements of exit packages disclosed within note 21.3.</p> <p>This has been amended by the Authority. This has no impact on the primary statements within the accounts but is reported as an adjusted misstatement as we set a lower level of materiality for Senior Officer Remuneration.</p>	<b>No overall impact on the primary statements</b>		
<b>Overall impact</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>



# Audit Adjustments

## 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?
<b>Critical judgements</b>	<ul style="list-style-type: none"> <li>The critical judgment around decision not to consolidate Red One has been omitted</li> </ul>	<ul style="list-style-type: none"> <li>Each year, the Authority should include the assessment of its relationship with and level of turnover in 'Red One' and set out its consideration as to whether consolidation under group accounting is required.</li> </ul>	✓
<b>Related parties</b>	<ul style="list-style-type: none"> <li>The relationship with SAFE South West has not been included in the Related Parties note</li> </ul>	<ul style="list-style-type: none"> <li>In line with the Code, all related parties should be disclosed within the accounts, regardless of whether there were any transactions in year. Hence the SAFE South West relationship should be disclosed within the related parties note.</li> </ul>	✓
<b>Related parties</b>	<ul style="list-style-type: none"> <li>The amount disclosed for Red One was not consistent with amounts related to Red One elsewhere in the accounts</li> </ul>	<ul style="list-style-type: none"> <li>The Authority must ensure that its related party disclosures with Red One are accurate and internally consistent with disclosures elsewhere in the accounts.</li> </ul>	✓
<b>Accounting Policies</b>	<ul style="list-style-type: none"> <li>The overall depreciation method, and depreciation policy for specialist vehicles have not been included</li> </ul>	<ul style="list-style-type: none"> <li>The Authority should disclose the overall depreciation method for all property, plant and equipment, and include the depreciation policy for specialist vehicles</li> </ul>	✓
<b>General Disclosures</b>	<ul style="list-style-type: none"> <li>Other general amendments</li> </ul>	<ul style="list-style-type: none"> <li>Other amendments including spelling, grammar and syntax and other minor disclosures which have not been separately disclosed should be adjusted and included.</li> </ul>	✓

# Audit Adjustments

## Impact of unadjusted misstatements

There are no unadjusted adjustments identified during the 2017/18 audit.

## Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2016/17 financial statements

Page 22	Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £' 000	Reason for not adjusting
1	The PFI equalisation provision does not appear to meet the criteria for a provision under IAS37 and should be treated as a reserve.	(295)	295	This was not adjusted in 2016/17 as it was not material.  This has been adjusted in 2017/18 and is disclosed as a reserve.
<b>Overall impact</b>		<b>£295</b>	<b>£295</b>	

# Fees

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

## Audit Fees

	Proposed fee	Final fee
Authority Audit	£33,820	£33,820
<b>Total audit fees (excluding VAT)</b>	<b>£33,820</b>	<b>£33,820</b>

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA).

# Audit opinion

We anticipate we will provide the Authority with an unmodified audit report

## Independent auditor's report to the members of Devon and Somerset Fire and Rescue Authority

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Devon and Somerset Fire and Rescue Authority (the 'Authority') for the year ended 31 March 2018 which comprise the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Movement in Reserves and notes to the financial statements, including a summary of significant accounting policies, and include the firefighters' pension fund financial statements comprising the Fund Account, the Net Assets Statement and notes to the financial statements. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2018 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Treasurer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Treasurer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

#### Other information

The Treasurer is responsible for the other information. The other information comprises the information included in the Statement of Accounts set out on pages 1 to 49 and the Statement of Annual Assurance, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the course of our work including that gained through work in relation to the Authority's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

### Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

### Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts and the Statement of Annual Assurance for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Matters on which we are required to report by exception

Under the Code of Audit Practice we are required to report to you if:

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in respect of the above matters.

### Responsibilities of the Authority, the Treasurer and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities for the accounts set out on page 8, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Treasurer. The Treasurer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18, which give a true and fair view, and for such internal control as the Treasurer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Treasurer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the Authority.

The Audit and Performance Review Committee is Those Charged with Governance.

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### **Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources**

#### **Conclusion**

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

#### **Responsibilities of the Authority**

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

#### **Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources**

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources

#### **Report on other legal and regulatory requirements - Certificate**

We certify that we have completed the audit of the financial statements of the Authority in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Peter Barber  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

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Bristol  
BS2 0EL



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## NOTES TO THE CORE FINANCIAL STATEMENTS

### 25 CAPITAL EXPENDITURE AND CAPITAL FINANCING

The total amount of capital expenditure incurred in the year is shown in the table below together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Authority, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Authority that has yet to be financed. The CFR is analysed in the second part of this note.

	2017/18 £000	2016/17 £000
Opening Capital Financing Requirement	27,097	27,260
<u>Capital investment</u>		
Operational assets	2,889	2,765
<u>Sources of Finance</u>		
Government grants and contributions	(21)	-
Capital receipt	-	(14)
<u>Sums set aside from revenue</u>		
Minimum Revenue Provision	(2,131)	(2,155)
Direct revenue funding	(906)	(759)
<b>Closing Capital Financing Requirement</b>	<b>26,928</b>	<b>27,097</b>
<b>Explanation of movements in year</b>	<b>2017/18 £000</b>	<b>2016/17 £000</b>
Increase/(Decrease) in underlying need to borrow	(94)	(94)
(Decrease) in PFI/lease liabilities	(75)	(69)
<b>Increase/(decrease) in Capital Financing Requirement</b>	<b>(169)</b>	<b>(163)</b>

### 26 LEASES

#### 26.1 OPERATING LEASES AS LESSEE

Total rentals paid during the year amounted to £0.854m. It is estimated that the outstanding liability for future years, in relation to existing lease agreements is £1.398m.

	2017/18 £000	2016/17 (Restated) £000
<u>Payments recognised as an expense in year</u>	854	847
<u>Future Minimum Lease Payments payable:</u>		
Not later than one year	514	584
Between one and five years	884	579
<b>Total</b>	<b>1,398</b>	<b>1,163</b>

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