

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

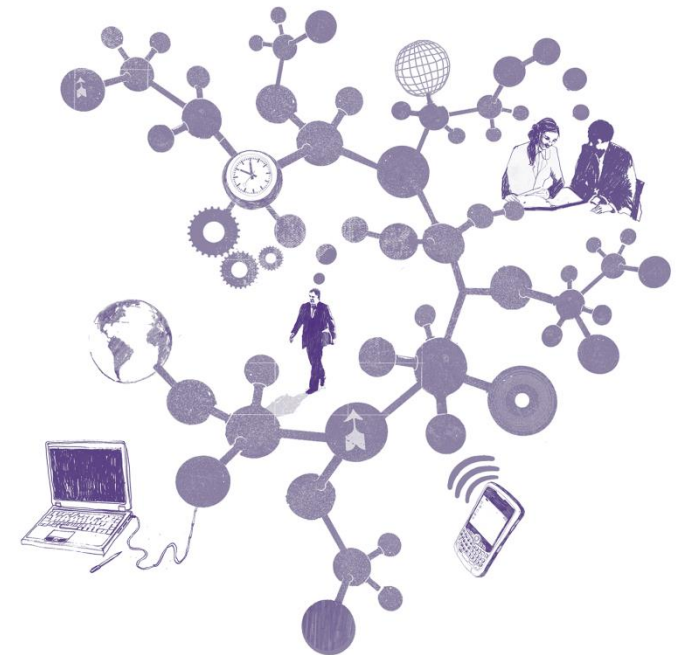
Year ended 31 March 2016

20 October 2016

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Executive summary

Purpose of this letter

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 2016.

This Letter is intended to provide a commentary on the results of our work to the Authority and its 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 (the Code) 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 12 September 2016

Our 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 and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

We gave an unqualified opinion on the Authority's financial statements on 22 September 2016.

Value for money conclusion

We were satisfied that the Authority put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016. We reflected this in our audit opinion on 22 September 2016.

Certificate

We certified that we had completed the audit of the accounts of Devon and Somerset Fire and Rescue Authority in accordance with the requirements of the Code on 22 September 2016.

Working with the Authority

We are really pleased to have worked with you over the past year. We have continued our positive and constructive relationship. Together we have delivered some great outcomes.

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
October 2016

Audit of the accounts

Our audit approach

Materiality

In our audit of the Authority's accounts, 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 our audit of the Authority's accounts to be £1,546,000, which is 1.75% of the Authority's gross revenue expenditure. We used this benchmark, as in our view, users of the Authority's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality for certain areas such as senior officer remuneration, auditors' remunerations and members' allowances.

We set a lower threshold of £78,000, 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 enough 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 Authority's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- 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 narrative report and annual governance statement to check they are consistent with our understanding of the Authority and with the accounts on which we give our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe 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 accounts

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
<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 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 Devon and Somerset Fire and Rescue Authority, we 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; and• 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.
<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none">• tested journal entries• reviewed accounting estimates, judgements and decisions made by management• reviewed unusual significant transactions <p>We did not identify any issues to report</p>

Audit of the accounts (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
<p>Valuation of property, plant and equipment</p> <p>The Authority has revalued all of its assets in the year. The Code requires that the Authority ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • Reviewed management's processes and assumptions for the calculation of the estimate. • Reviewed the competence, expertise and objectivity of any management experts used. • Reviewed the instructions issued to valuation experts and the scope of their work • Discussed with the Authority's valuer the basis on which the valuation was carried out, challenging the key assumptions. • Reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding. • Tested revaluations made during the year to ensure they were input correctly into the Authority's asset register • Applied market indices to carry out our own desktop valuation and comparison of this to the valuation expert's valuation • Evaluated 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. <p>We did not identify any issues to report</p>
<p>Valuation of pension fund net liability</p> <p>The Authority's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • Documented the key controls that were put in place by management to ensure that the pension fund liability was not materially misstated. • Walked through the key controls to assess whether they were implemented as expected and mitigate the risk of material misstatement in the financial statements. • Reviewed the competence, expertise and objectivity of the actuary who carried out the Authority's pension fund valuation. • Gained 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. • Reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. <p>We did not identify any issues to report</p>

Audit of the accounts (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
<p>Operating expenses</p> <p>Creditors understated or not recorded in the correct period (Operating expenses understated)</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • walked through the key controls to assess the whether those controls were in line with our documented understanding • substantively tested a sample of operating expenses to ensure they have been accurately accounted for and in the correct period. • reviewed for unrecorded liabilities, review of payments made after the year end. • reviewed creditors / liability balances for unusual amounts, including testing of accruals and review of estimation techniques. <p>We did not identify any issues to report</p>
<p>Employee remuneration</p> <p>Employee remuneration accruals understated (Remuneration expenses not correct)</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • walked through the key controls to assess the whether those controls were in line with our documented understanding • substantively tested employees for accuracy of payment and the agreement of employee remuneration disclosures to supporting documentation. • Reviewed the year end payroll reconciliation to ensure that information from the payroll system can be agreed to the ledger and the financial statements. • Completed a monthly trend analysis of employee costs for the year to identify any unusual or irregular movements. <p>We did not identify any issues to report</p>
<p>Firefighters Pensions Benefit Payments</p> <p>Benefits improperly computed/ claims liability understated</p> <p>Payments to retiring officers are low in volume but high in value and the service is reliant on effective controls both within and outside the organisation to ensure that payments made are valid and accurate.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • walked through the key controls to assess the whether those controls were in line with our documented understanding • Agreed the pension disclosures in the financial statements to supporting evidence • Substantively tested a sample of new recurring Fire Fighter Pension benefit payments and one off lump sums covering the period 1 April 2015 to 31 March 2016 to ensure that they have been accurately accounted for and in the correct period. <p>We did not identify any issues to report</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Authority's accounts on 22 September 2016, in advance of the 30 September 2016 national deadline.

The Authority made the accounts available for audit in line with the agreed timetable, 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.

The key messages arising from our audit of the Authority's financial statements were:

- the draft accounts were produced to a very good standard
- the audit was facilitated by good supporting working papers and excellent assistance from the finance team

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Authority to the Authority's Audit and Performance Review Committee on 12 September 2016.

Annual Governance Statement and Narrative Report

We are also required to review the Authority's Annual Governance Statement and Narrative Report. It published them on its website with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council/Authority and with our knowledge of the Council/Authority.

Other statutory duties

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Authority's accounts and to raise objections received in relation to the accounts.

We were not required to invoke our additional powers and duties during the completion of this audit.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2015 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 key risks where we concentrated our work.

The key risks we identified and the work we performed are set out on pages 10 and 11.

Overall VfM 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 2016.

Value for Money

Value for money risks

Risk identified	Work carried out	Findings and conclusions
<p>The Authority continues to face financial pressures with further cuts being made in central government funding with a 25% cut over the next four years if the Authority accepts the four year settlement offered by the Government</p>	<p>We reviewed the Authority's latest Medium Term Financial Plan and the 2016/17 budget, considering the assumptions that underpin the figures within them.</p>	<p>The Authority set a balanced budget for the 2016/17 financial year, with a Council Tax increase of 1.99% being agreed. Budgeted savings within this were £3.2m, consisting of £988k from non staff budget lines, £511k from support staff and £1,723k from operational posts.</p> <p>The current MTFP runs to 2019/2020 with the savings requirement over that period being £3.7m based on council tax increases of 1.99% each year or £6.4m if Council Tax is frozen. The strategic approach to these savings are also set out in the presentation. This was the position at the time of the budget setting in February 2016, which had developed from the presentation to a members forum on 14/1/16 which referred to a potential gap of £7.9m between 17/18 and 19/20. 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. These assumptions have been reviewed and appear to be reasonable. The MTFP can change over time and is updated regularly as a result of updated information on grant settlements, savings strategy and new cost pressures identified.</p> <p>The Authority is planning to apply for the 4 year funding settlement on offer from the government, which will allow it to plan with more certainty over the medium term. An efficiency plan has been developed and is going to the Resources Committee on 1/9/16. This presents an updated position on the funding position to 2019/2020, with the savings required over 2017/18 to 2019/2020 being £6.6m when allowing for a 1.99% council tax increase each year. 2017/18 has savings assumptions of £2,398k meaning that further savings of £1,349k still need to be identified. The Authority intend to use earmarked reserves to cover this gap in 2017/18 with forecast savings identified in 2018/19 and 2019/2020 replenishing the reserves by the end of that period.</p> <p>Budgets and the savings included within them are monitored monthly with quarterly reporting to members, allowing for appropriate actions to be taken in response to any slippage in savings.</p> <p>On that basis we concluded that the risk was sufficiently mitigated and the Authority has proper arrangements</p>
<p>The Authority is in the process of updating its Integrated Risk Management Plan (IRMP).and its Asset Strategy.</p>	<p>We reviewed the Authority's IRMP and the enabling strategies that underpin it to establish how the Authority is identifying, monitoring and managing these risks.</p>	<p>The Authority approved its updated Integrated Risk Management Plan 'Creating Safer Communities Our Plan 2016-2021' in February 2016. This is a high level document and is underpinned by more detailed enabling strategies. The Asset Strategy currently in place is for 2015-2020 and an updated Asset Strategy covering 2016-2020 is already in draft. Service Level Agreements that flow from the Asset Strategy are also being updated so that they align with the IRMP.</p> <p>There is strong evidence of the work being done within the Authority to align the detailed strategies to the overarching IRMP</p> <p>On that basis we concluded that the risk was sufficiently mitigated and the Authority has proper arrangements</p>

Value for Money (continued)

Value for money risks (continued)

Risk identified	Work carried out	Findings and conclusions
<p>The Authority is experiencing high levels of staff sickness during a period where there have been reductions in staffing levels as the Authority reacts to reductions in government grant funding.</p>	<p>We will review the Authority's workforce plans and the sickness action plan to establish how the Authority is managing and monitoring its workforce issues.</p>	<p>Absence Management is a standing item on the agenda for the Human Resources Management and Development Committee with the Committee receiving written reports to every meeting.</p> <p>During 2015/16 the Authority did see an improvement in long term sickness compared to 2014/15 after an initial continued increase. The average number of days sickness for all in 2015/16 was 9.10%, compared to 9.74% in 2014/15 (a drop of 6.6%). The rate remains significantly higher than the 7.6% for 2013/14.</p> <p>The Quarter 4 Performance Report also set out the actions being taken:</p> <ul style="list-style-type: none"> • Removal of Sick Pay Review panels • Provision of further information to help managers to review the situation of each employee on long-term sickness absence and provide appropriate support • More contact and discussion with employees who are off work due to sickness • Better access to restricted duties • Exploring ways to speed up any medical delays by, where appropriate and with a business case, providing private medical assistance. <p>In addition the Authority is working to develop a fitness, health and wellbeing culture with the aim of improving fitness levels amongst staff. They have prepared an outline business case for fire-fighter fitness to create a fitness culture against the backdrop of an aging workforce.</p> <p>It appears that the Authority's actions are starting to have some impact but there are further changes impacting the sector and the Authority (responsibility changing from DCLG to the Home Office), reviews of working arrangements and equipment and reductions in middle management and support staff and enhanced collaboration with other blue light services. The uncertainty associated with these changes means that this will be a continued area of focus for the Authority, however we are satisfied that the risk is sufficiently mitigated and that the Authority has proper arrangements for VFM conclusion purposes.</p> <p>On that basis we concluded that the risk was sufficiently mitigated and the Authority has proper arrangements</p>

Working with the Authority

Our work with you in 2015/16

We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship. Together we have delivered some great outcomes.

An efficient audit – we delivered the accounts audit 8 days before the deadline. Our audit team are knowledgeable and experienced in your financial accounts and systems. Our relationship with your team provides you with a financial statements audit that continues to finish on schedule releasing your finance team for other important work.

We have shared with you our insights on advanced closure of local authority accounts, in our publication "Transforming the financial reporting of local authority accounts", sharing the lessons learned from our local government bodies who have advanced their financial reporting processes and closed their accounts early. We are holding a workshop on this topic in October which is being attended by members of your finance team

Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness.

We provided regular audit and governance committee updates covering emerging issues and developments of relevance to the Authority, including those from the National Audit Office (NAO) and CIPFA.

Thought leadership– we have shared our insights via our national publications. Areas we covered included:

- Innovation in public financial management
- Knowing the Ropes – Cross sector Audit Committee Effectiveness Review
- Making devolution work – A practical guide for local leaders
- Reforging local government – Our summary findings from financial health checks and governance reviews

We have also shared with you our publication on Building a successful joint venture and will continue to support you as you consider greater use of alternative delivery models for your services. You attended our income generation workshop in October.

Providing training – we provided your teams with training on financial accounts and annual reporting. The joint training with CIPFA was attended by members of your finance team.

Support outside of the audit – our employer solutions team provided you with pensions advice.

We will also continue to work with you and support you over the next financial year, including:

- An efficient audit – continuing to deliver an efficient audit and providing advice and support as you move towards the faster close deadlines
- Support outside of the audit – we will continue to introduce our advisory team where we believe this is of benefit to you. We will also continue to provide you with relevant publications and our thought leadership pieces, and hold informed, insightful conversations with you.

Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and provision of non-audit services

Fees

	Planned £	Actual fees £	2014/15 fees £
Statutory audit of Authority	33,820	33,820	45,093
Total fees (excluding VAT)	33,820	33,820	45,093

Fees for other services

Service	Fees £
Non-audit services	
• Provision of pension advice	6,500

Reports issued

Report	Date issued
Audit Plan	April 2016
Audit Findings Report	September 2016
Annual Audit Letter	October 2016



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