Devon and Somerset Fire and Rescue Authority Audit Plan

Year ending 31 March 2023

19th September 2023

Contents

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Authority or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Key matters

National context

For the general population, rising inflation rates, in particular for critical commodities such as energy, food and fuel, is pushing many households into poverty and financial hardship, including those in employment. At a national government level, recent political changes have seen an emphasis on controls on spending, which in turn is placing pressure on public services to manage within limited budgets.

Local Government funding continues to be stretched with increasing cost pressures due to the cost-of-living crisis, including higher energy costs, increasing pay demands, higher agency costs for temporary staff and increases in supplies and services. Local authority front-line services play a vital role in protecting residents from rising costs; preventing the most vulnerable from falling into poverty and helping to build households long-term financial resilience.

As the cost of living continues to rise, this will have an impact on fire risk in the home, potentially making fires more likely to occur as people take greater risks. The number of people living in fuel poverty is expected to rise dramatically over the winter months of 2022-2023. This is likely to further increase the demand for fire and rescue services at a time where Authorities are facing budgetary pressures.

Devon and Somerset Fire and Rescue's Medium Term Financial Plan set outs that by 2027/28 the Authority could face a budget gap of £20.8m. This is on top of savings delivered to date of £22.5m.

Our recent value for money work has highlighted a number of governance and financial stability issues at a national level, which is a further indication of the mounting pressure on audited bodies to keep delivering services, whilst also managing transformation and making savings at the same time.

In planning our audit, we will take account of this context in designing a local audit programme which is tailored to your risks and circumstances.

Audit Reporting Delays

In a report published in January 2023 the NAO highlighted that since 2017-18 there has been a significant decline in the number of local government body accounts including an audit opinion published by the deadlines set by government. The NAO outline a number of reasons for this and proposed actions. In our view, it is critical for an early completion of audits that draft local authority accounts are prepared to a high standard and supported by robust working papers.

Grant Thornton has produced a report 'About Time' that explores the reasons for delayed publication of audited local authority accounts. Local authority accounts are becoming increasingly complex as accounting standards evolve and local authorities enter more and more innovative financing arrangements and income generation projects. A significant challenge in managing local audits is the differing needs of various stakeholders. This report concluded that amongst other things, the local government sector, central government and regulators need to agree on the purpose of local audit and find a consensus on improving efficiency in publishing accounts.

Key matters

Our Responses

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set out further in our Audit Plan, has been agreed with the Director of Finance and Corporate Services (S151 Officer).
- We will consider your arrangements for managing and reporting your financial resources as part of our audit in completing our Value for Money work.
- Our value for money work will also consider your arrangements relating to governance and improving economy, efficiency and effectiveness.
- We will follow up actions in respect of matters identified through previous audit work, on the financial statements or in respect of work on arrangements to secure VFM.
- We will continue to provide you and your Audit and Governance Committee with sector updates providing our insight on issues from a range of sources and other sector commentators via our Audit and Governance Committee updates.
- We hold annual financial reporting workshops for our audited bodies to access the latest technical guidance and interpretation, discuss issues with our experts and create networking links with other audited bodies to support consistent and accurate financial reporting across the sector.
- In the 2021/22 we included a significant risk in our audit plan in relation to the preparation of group accounts. This was due to it being the first time that the Authority had prepared these accounts. Whilst there were a number of findings and amendments required against this risk, we have not assessed group accounts preparation as a significant risk for 2022/23. This is due the experienced gained in the prior year. The group accounts will be audited as part of our normal audit procedures.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Devon and Somerset Fire and Rescue Authority ('the Authority') for those charged with governance.

Respective responsibilities

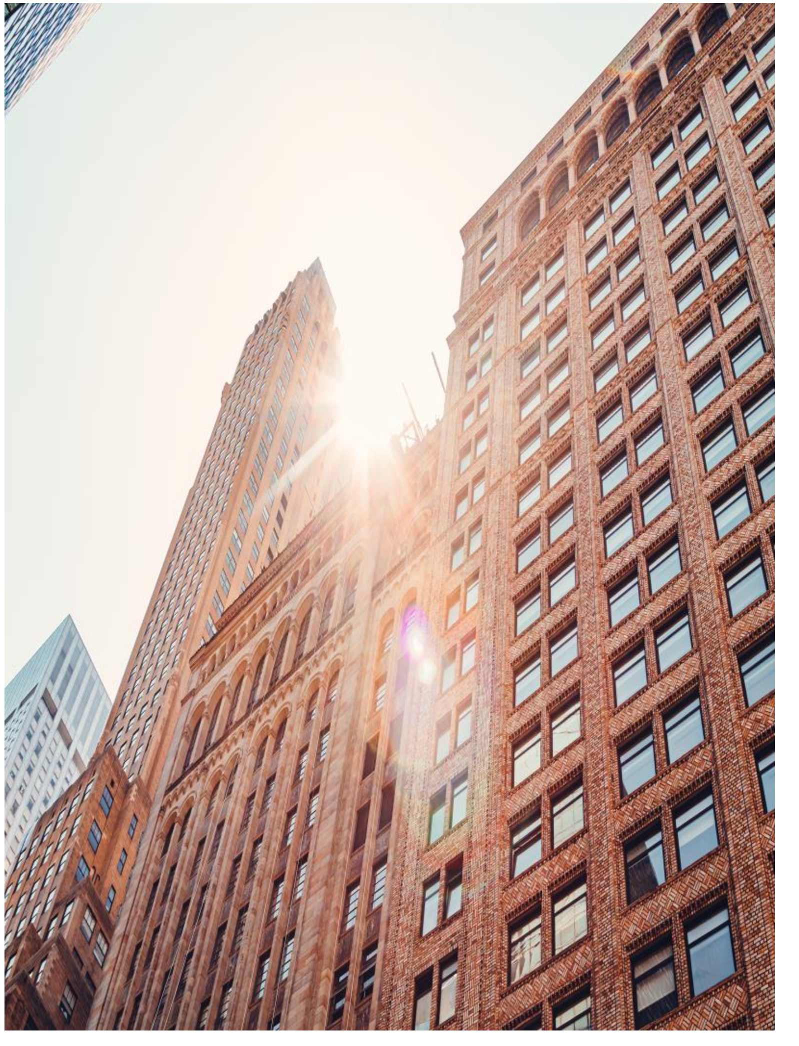
The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Devon and Somerset Fire and Rescue Authority. We draw your attention to both of these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Authority and group's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit and Governance committee); and we consider whether there are sufficient arrangements in place at the Authority and group for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently in order to maximise the outcomes that can be achieved.

The audit of the financial statements does not relieve management or the Audit and Governance Committee of your responsibilities. It is the responsibility of the Authority to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Authority is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Authority's business and is risk based.



Introduction and headlines

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management override of controls;
- Revenue recognition (rebutted for the Authority);
- Expenditure recognition (rebutted for the Group);
- Assumptions underpinning the valuation of land and buildings;
- Assumptions underpinning the valuation of net pension fund liability.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Group Audit

The Authority is required to prepare group financial statements that consolidate the financial information of Red One Limited.

Materiality

We have determined planning materiality to be £2.3m (PY £2.1m) for the group and £2.2m (PY £2.1m) for the Authority, which equates to 2% of your gross operating costs for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. As part of our risk assessment, we have considered the impact of prior period errors. There were a number of required amendments to the 2021/22 financial statements. We have therefore reduced our performance materiality from 75% to 65%. Clearly trivial has been set at £0.110m (PY £0.105m) for the Authority.

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money has identified the following risks of significant weakness:

- Arrangements for responding to the July 2022 inspection report; and
- Financial Sustainability.

We will continue to update our risk assessment until we issue our Auditor's Annual Report.

New Auditing Standards

There are two auditing standards which have been significantly updated this year. These are ISA 315 (Identifying and assessing the risks of material misstatement) and ISA 240 (the auditor's responsibilities relating to fraud in an audit of financial statements). We provide more detail on the work required later in this plan.

Audit logistics

Our audit will take place between November 2023 and February 2024. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report.

Our proposed fee for the audit will be £52,380 (PY: £57,280) for the Authority, subject to the Authority delivering a good set of financial statements and working papers.

We have complied with the Financial Reporting Authority's Ethical Standard (revised 2019) 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

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	Group and Authority	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • evaluate the design effectiveness of management controls over journals; • analyse the journals listing and determine the criteria for selecting high risk unusual journals; • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

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

Significant risks identified (cont)

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
The expenditure cycle includes fraudulent transactions (rebutted)	Group and Authority	Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom (PN10) states: "As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure may be greater than the risk of material misstatements due to fraud related to revenue recognition". Public sector auditors therefore need to consider whether they have any significant concerns about fraudulent financial reporting of expenditure which would need to be treated as a significant risk for the audit. We have rebutted this presumed risk for Devon and Somerset Fire and Rescue Authority because: • expenditure is well controlled and the Authority has a strong control environment; and • the Authority has clear and transparent reporting of its financial plans and financial position to the Authority. For Red One Limited expenditure is well controlled, with elements of support provided by the Authority. There is regular reporting to the Authority which includes expenditure. We therefore do not consider this to be a significant risk for Devon and Somerset Fire and Rescue Authority and the wider group.	No specific work is planned as the presumed risk has been rebutted.

Management should expect engagement teams to challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates and similar areas. Management should also expect to provide to engagement teams with sufficient evidence to support their judgments and the approach they have adopted for key accounting policies referenced to accounting standards or changes thereto.

Where estimates are used in the preparation of the financial statements management should expect teams to challenge management’s assumptions and request evidence to support those assumptions.

Significant risks identified (cont)

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Group Revenue	Group (subsidiary only)	Under ISA 240 (UK) there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. The presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue and expenditure recognition. For Devon and Somerset Fire and Rescue Authority, we have concluded that the greatest risk of material misstatement relates to Group Revenue. We have therefore identified the occurrence and accuracy of Red One Limited's trading income as a significant risk of material misstatement, and a key audit matter. We have rebutted this presumed risk for the revenue streams of the Authority because: • Other income streams are primarily derived from grants or formula based income from Central Government; and • Opportunities to manipulate revenue recognition are very limited.	For Group Revenue revenue we will: • Evaluate the group's accounting policies for the recognition of income for appropriateness; • Gain an understanding of the group's system for accounting for income and evaluate the design of the associated controls; and • Agree, on a sample basis, the amounts recognised as income in the financial statements to supporting documents. Where possible this will be through placing reliance upon the work of the subsidiary auditor. We will continue to review and test, on a sample basis, material revenue and expenditure transactions within the Authority's accounts, ensuring that it remains appropriate to rebut the presumed risk of revenue and expenditure recognition.

Management should expect engagement teams to challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates and similar areas. Management should also expect to provide to engagement teams with sufficient evidence to support their judgments and the approach they have adopted for key accounting policies referenced to accounting standards or changes thereto.

Where estimates are used in the preparation of the financial statements management should expect teams to challenge management's assumptions and request evidence to support those assumptions.

Significant risks identified (cont)

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings and the key assumptions and judgements that underpin this significant estimate	Authority	The Authority revalues its land and buildings on an annual basis to ensure that the carrying value is not materially different from the current value at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£115m) and the sensitivity of this estimate to changes in key assumptions. Management have engaged the services of a valuer to estimate the current value as at 31 March 2023. The valuation of land and buildings is a key accounting estimate which is sensitive to changes in assumptions and market conditions. We therefore identified valuation of land and buildings as a significant risk, in particular, any large or unusual assets or where there have been movements in valuations outside our expectations, as well as testing a sample of those within our expectations. This is one of the most significant assessed risks of material misstatement, and a key audit matter.	We will: • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluate the competence, capabilities and objectivity of the valuation expert; • write to the valuer to confirm the basis on which the valuation was carried out; • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the Authority's valuer's report and the assumptions that underpin the valuation; and • test revaluations made during the year to see if they had been input correctly into the Authority's asset register.

Management should expect engagement teams to challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates and similar areas. Management should also expect to provide to engagement teams with sufficient evidence to support their judgments and the approach they have adopted for key accounting policies referenced to accounting standards or changes thereto.

Where estimates are used in the preparation of the financial statements management should expect teams to challenge management's assumptions and request evidence to support those assumptions.

Significant risks identified (cont)

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability and the key assumptions that underpin this significant estimate	Authority	The Local Government Pension Scheme (LGPS) pension net liability as reflected in the balance sheet, and asset and liability information disclosed in the notes to the accounts, represent a significant estimate in the financial statements. The Firefighters Pension scheme's pension fund liability as reflected in the balance sheet and notes to the accounts also represents a significant estimate in the financial statements. These estimates by their nature are subject to significant estimation uncertainty being sensitive to small adjustments in the key assumptions used. The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount and inflation rates, where our consulting actuary has indicated that a 0.1% increase in the discount rate would reduce the LGPS liability by £1.3m. The same change would reduce the firefighter pensions liability by £9.1m. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Authority's pension fund net liability as a significant risk.	We will: • update our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as the auditor's expert) and performing any additional procedures suggested within the report; • agree the advance payment made to the pension fund during the year to the expected accounting treatment and relevant financial disclosures; and • obtain assurances from the auditor of Devon Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the Devon Pension Fund financial statements. • test the data provided to the actuary of the Fire Fighter Pension Fund.

Group audit scope and risk assessment

Component	Individually Significant?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
The Authority	Yes		• The significant risks for the audit are set out on pages 7-11 of this audit plan.	Full scope audit performed by Grant Thornton UK LLP
Red One Ltd	No		• We have identified the occurrence and accuracy of Red One Ltd's trading income as a significant risk. • Whilst we have not identified a significant risk in relation to Red One Ltd's expenditure, this is forecast to be a material balance that will require audit consideration.	Red One Ltd have appointed an external auditor – Albert Goodman LLP. Specific scope procedures on Income (significant risk) and expenditure (material) to be performed by Albert Goodman LLP. The nature, time and extent of our involvement in the work of Albert Goodnam LLP will begin with a discussion on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of the auditor's audit documentation and meeting with appropriate members of management.

Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to risks of material misstatement of the group financial statements
- Analytical procedures at group level

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Statement of Assurance and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Authority.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your 2021/22 financial statements, consider and decide upon any objections received in relation to the 2021/22financial statements;
  - issuing a report in the public interest or written recommendations to the Authority under section 24 of the Local Audit and Accountability Act 2014 (the Act).
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
  - issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, 'irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure'. All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Progress against prior year audit recommendations

We identified the following issues in our 2021/22 (and prior year) audit of the group's financial statements, which resulted in 6 recommendations being reported in our 2021/22 Audit Findings Report. Progress against these recommendations are set out below:

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	We note that the Authority has made no assessment of the impact of the implementation of IFRS16. This is a significant change that will impact on how the Authority recognises its leases. There are a number of steps to be completed as part of the assessment that can be time consuming. We recommend that the Authority commence its assessment of the impact of IFRS16 implantation.	Based on review of the draft financial statements, an assessment of the IFRS16 impact has still not been made.
Not yet assessed	Our testing of accruals identified three items that were not accrued for using correct treatment at year end. These amounts were trivial however, we recommend that the Authority review its accruals process as part of the 2022/23 closedown.	Management update: The process is now to send a copy of the accruals (GRNI) to the Accountants for double-checking. This took place in the 2022/23 closedown.
Not yet assessed	There are a number IT related policies that are past their review date for update. A number are pre-covid. IT has changed significantly due to the pandemic with remote working etc which exposes the Authority to greater risk. We will review the IT policies and update them in accordance with our update process.	Management update: The Information Governance Team have confirmed that all ICT Policies have been reviewed and confirmed as accurate or amended.

Progress against prior year audit recommendations (continued)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
Not yet assessed	Our work on journals identified that there is no formal approval process for posting journals, therefore the finance team members who have access to post journals are effectively approving their own entry. The Head of Finance and Senior Accountant complete a review of a sample of journal entries posted twice a year, however this is done retrospectively and is not a preventative control. We recommended that the Authority introduce preventative controls for the approval of journals.	The Authority continue to accept the risk in this area as with the size of team introducing preventative controls would be unworkable.
Not yet assessed	Our work on journals work noted that there is no authorisation limit on posting journals, therefore journal users are not restricted by the value they post. We recommended implementing a structure/policy on authorisation limits.	The Authority continue to accept the risk in this area as with the size of team introducing preventative controls would be unworkable.
✓	The code requires that where areas of estimation uncertainty are disclosed the note should set out the impact of changes to the key assumptions on the values within the financial statements. We recommended that the Authority enhance the note 4 disclosure, to meet the requirements of the code.	The draft 2022/23 include this required information.

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.

Matter	Description	Planned audit procedures
1	**Determination** We have determined financial statement materiality based on a proportion of the gross expenditure of the group and Authority for the financial year. Materiality at the planning stage of our audit is £2.300m for the Group and £2.200m for the Authority, which equates to 2% of your gross expenditure for the period.	We determine planning materiality in order to: – establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements – assist in establishing the scope of our audit engagement and audit tests – determine sample sizes and – assist in evaluating the effect of known and likely misstatements in the financial statements
2	**Other factors** An item does not necessarily have to be large to be considered to have a material effect on the financial statements.	An item may be considered to be material by nature where it may affect instances when greater precision is required. – We have identified senior officer remuneration as a balance where we will apply a lower materiality level, as these are considered sensitive disclosures. We have set a materiality of £0.020m.

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.

Matter	Description	Planned audit procedures
3	**Reassessment of materiality** Our assessment of materiality is kept under review throughout the audit process.	We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.
4	**Other communications relating to materiality we will report to the Audit and Governance Committee** Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit and Governance Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. 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.	We report to the Audit and Governance Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. In the context of the Group and Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.115m for the group (PY £0.105m) and £0.110m for the Authority (PY £0.105m) and If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit and Governance Committee to assist it in fulfilling its governance responsibilities.

IT audit strategy

In accordance with ISA (UK) 315 Revised, we are required to obtain an understanding of the relevant IT and technical infrastructure and details of the processes that operate within the IT environment. We are also required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design and implementation of relevant ITGCs. The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT system	Audit area	Planned level IT audit assessment
Advanced ADVT (Core Finance Management System)	Financial reporting	• Test design and implementation of the ITGCs.
iTrent (Payroll)	Payroll	• Test design and implementation of the ITGCs.

Value for Money arrangements

Approach to Value for Money work for the period ended 31 March 2023

The National Audit Office -issued its latest Value for Money guidance –to auditors in January 2023. The Code expects auditors to consider whether a body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are expected to report any significant weaknesses in the body's arrangements, should they come to their attention. In undertaking their work, auditors are expected to have regard to three specified reporting criteria. These are as set out below:

Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services.

Financial Sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services.

Governance

How the body ensures that it makes informed decisions and properly manages its risks.

Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we have identified are detailed in the first table below, along with the further procedures we will perform. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the second table below.

Risks of significant weakness

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the body to deliver value for money.

Inspection report

On Wednesday 27 July 2022, HMICFRS published the Devon & Somerset Fire & Rescue Service (DSFRS) 2022 inspection report. The inspection report identified one Cause of Concern and 14 Areas for Improvement (AFIs).

We confirmed as part of our 2021/22 work that an action plan had been put in place by the required deadline.

As part of our 2022/23 work we will review progress against the plan to ensure that the arrangements to respond remain appropriate.

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

Risks of significant VFM weaknesses (cont)

Financial Sustainability

As part of our 2020/21 and 2021/22 VFM work we made several recommendations for improvement. These will be followed up as part of our 2022/23 work.

A number of these were related to financial sustainability and the need to develop and monitor detailed savings programs and introduce sensitivity analysis and scenario planning into financial planning and monitoring.

The implementation of these recommendations is becoming more important given rising costs and the financial challenge faced by the Authority. Devon and Somerset Fire and Rescue Medium Term Financial Plan (23/24) sets out that by 2027/28 the Authority could face a budget gap of £20.8m. This is on top of savings delivered to date of £22.5m.

We will review progress toward the implementation of prior year recommendations, and the arrangements in place for ensuring long term financial sustainability.

Audit logistics and team

Planning and risk assessment

Audit committee 29 September

Audit Plan

Interim audit September 2023

Audit committee 29 September

Interim Progress Report

Year end audit November – February 2023

Audit committee February 2023

Audit Findings Report

Audit opinion

Audit committee February 2023

Auditor's Annual Report

Barrie Morris, Key Audit Partner

Barrie leads our relationship with you and takes overall responsibility for the delivery of a high-quality audit, meeting the highest professional standards and adding value to the Authority

Andrew Davies, Audit Manager

Responsible for the overall management of the audit; consideration of VFM work; quality assurance of audit work and outputs.

Suraj Hirani, Audit In-charge

Suraj's role is to assist in planning, managing and delivering the audit fieldwork, ensuring the audit is delivered effectively and efficiently, and is also involved in supervising and co-ordinating the audit team.

Audited Entity responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audited bodies. Where the elapsed time to complete an audit exceeds that agreed due to an entity not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to an entity not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to :

- ensure that you produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the Annual Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

Audit fees and updated Auditing Standards including ISA 315 Revised

In 2017, PSAA awarded a contract of audit for Devon and Somerset Fire and Rescue Authority to begin with effect from 2018/19. The fee agreed in the contract was £26,041. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2022/23 audit. For details of the changes which impacted on years up to 2021/22 please see our prior year Audit Plans.

The major change impacting on our audit for 2022/23 is the introduction of ISA (UK) 315 (Revised) - Identifying and assessing the risks of material misstatement ('ISA 315'). There are a number of significant changes that will impact the nature and extent of our risk assessment procedures and the work we perform to respond to these identified risks. Key changes include:

- Enhanced requirements around understanding the Authority's IT Infrastructure, IT environment. From this we will then identify any risks arising from the use of IT. We are then required to identify the IT General Controls ('ITGCs') that address those risks and test the design and implementation of ITGCs that address the risks arising from the use of IT.
- Additional documentation of our understanding of the Authority's business model, which may result in us needing to perform additional inquiries to understand the Authority's end-to-end processes over more classes of transactions, balances and disclosures.
- We are required to identify controls within a business process and identify which of those controls are controls relevant to the audit. These include, but are not limited to, controls over significant risks and journal entries. We will need to identify the risks arising from the use of IT and the general IT controls (ITGCs) as part of obtaining an understanding of relevant controls.
- Where we do not test the operating effectiveness of controls, the assessment of risk will be the inherent risk, this means that our sample sizes may be larger than in previous years.

These are significant changes which will require us to increase the scope, nature and extent of our audit documentation, particularly in respect of your business processes, and your IT controls. We will be unable to determine the full fee impact until we have undertaken further work in respect of the above areas. However, for an authority of your size, we estimate an initial increase of £3,000. We will let you know if our work in respect of business processes and IT controls identifies any issues requiring further audit testing. There is likely to be an ongoing requirement for a fee increase in future years, although we are unable yet to quantify that.

The other major change to Auditing Standards in 2022/23 is in respect of ISA 240 which deals with the auditor's responsibilities relating to fraud in an audit of financial statements. This Standard gives more prominence to the risk of fraud in the audit planning process. We will let you know during the course of the audit should we be required to undertake any additional work in this area which will impact on your fee.

Taking into account the above, our proposed work and fee for 2022/23, as set out below, is detailed overleaf and has been agreed with the Section 151 Officer.

Audit fees

	Actual Fee 2020/21	Actual Fee 2021/22	Proposed fee 2022/23
Devon and Somerset Fire and Rescue Authority Audit	£41,291	£57,280	£52,380

Assumptions

In setting the above fees, we have assumed that the Authority will:

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard (revised 2019) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

D. Fees

Fee analysis

Audit fees	Estimated fee
Scale fee per PSAA for 2022-23	31,980
Additional Requirements – Payroll Change of Circumstances (Information Provided by the Entity) IPE Testing	500
Value for Money audit – new NAO requirements	8,000
ISA 540	1,800
ISA 315	3,000
Additional journals testing	2,100
Additional audit work on Group Accounts	5,000
Estimated fee	52,380

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 Authority'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 May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams, and component audit firms providing services to the group and Authority.

Other services

No other services provided by Grant Thornton were identified.

Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters	•	
Confirmation of independence and objectivity of the firm, the engagement team members and all other indirectly covered persons	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•
Matters in relation to the group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	•	•
Views about the qualitative aspects of the Group’s accounting and financial reporting practices including accounting policies, accounting estimates and financial statement disclosures		n/a
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud(deliberate manipulation) involving management and/or which results in material misstatement of the financial statements (not typically council tax fraud)		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

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

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

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (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.

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