Devon and Somerset Fire and Rescue Authority Audit Progress and Sector Update report

Year ending 31 March 2023

January 2024

Contents

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 Council 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.

Introduction

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This paper provides the Audit and Governance Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as an Authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Audit and Governance Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications https://www.grantthornton.co.uk/en/services/public-sector-services/

If you would like further information on any items in this briefing or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

Progress at January 2024

Financial Statements Audit 2022/23

The start of the 2022/23 was delayed until November 2023. This was due to Grant Thornton's capacity, which is similar to other auditors within the sector, but also to give the Authority the time to ensure that the accounts submitted for audit were adequately reviewed and supporting papers ready. This decision was taken due to there being a number of adjustments required to the 2021/22 that resulted in additional fees.

We presented our Audit Plan to the Audit and Governance Committee in September 2023 and this set out the key risks and our proposed response to each.

The Audit was due to start 6 November 2023, however this was delayed until 20 November 2023, due to delays completing the team's prior audit. We would like to record our thanks for the Authority's flexibility in this regard.

On receipt, and initial review of the financial statements the draft accounts were well put together, and supporting working papers were available for the audit team. This has helped audit progress. In addition, and despite the audit coinciding with budget setting audit queries have been responded to in a timely manner.

The audit is progressing well with no significant issues noted to date.

Our Audit Findings Report will be presented at the 26 March 2024 Audit and Governance Committee.

We have set out progress and the findings to date in each of the significant risk areas on pages 6-11 of this report.

Value for Money 2022/23

Our VFM work is complete. The Auditors Annual Report (AAR), which sets out the findings of this work is included on the January 2024 Audit and Governance Committee agenda. The AAR contents and the recommendations raised has been agreed with management.

Other areas

Handover

Following completion of all areas of our work, we will work with the Authority's new appointed auditors to ensure the handover is as smooth as possible.

Events

Your officers will be invited to attend our Financial Reporting Workshops in February 2024, which will help to ensure that members of your Finance Team are up to date with the latest financial reporting requirements for local authority accounts.

Audit Deliverables

2022/23 Deliverables	Planned Date	Status
Audit Plan We are required to issue a detailed audit plan to the Audit and Governance Committee setting out our proposed approach in order to give an opinion on the Authority's 2022/23 financial statements and to issue a commentary on the Authority's value for money arrangements in the Auditor's Annual Report.	September 2023	Complete
Audit Findings Report (AFR) The Audit Findings Report will be reported to the January 2024 Audit and Governance Committee.	March 2024	The full AFR will now be presented to the 26 March 2024 Audit and Governance meeting – progress to date, against the significant risks are set out on pages 6-11.
Auditors Report This includes the opinion on your financial statements.	March 2024	We plan to issue our audit report following the 26 March 2024 Audit and Governance meeting.
Auditor's Annual Report This report communicates the key outputs of the audit, including our commentary on the Authority's value for money (VFM) arrangements.	March 2024	Our VFM work is complete and the report summarising our findings is included on this agenda. The final report will be updated to reflect the findings from our financial statements audit, that is due to conclude in March 2024.

Progress against 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.	To date we have: • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determine the criteria for selecting high risk unusual journals; • gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; We are currently completing our work: • evaluating the rationale for any changes in accounting policies, estimates or significant unusual transactions; and • testing unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration. In the prior year we identified two control deficiencies that increase the risk of management override: 1. The Authority does not have preventative or detective controls in place to check journal postings made by team members. In addition, approval is obtained retrospectively, and 2. There is no authorisation limit on journal postings. This remains the situation in 2022/23. Management have asserted that are in discussion with their systems provider and have received advice on integrating to new versions of the system. Discussions are still in progress with regards to implementing such integration. At the time of writing this report our testing of our risk-based sample is in its early stages.

Progress against significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
ISA240 revenue risk	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.	We re-considered this assessment on receipt of the draft financial statement and have not identified any reasons to change this assessment. In our Audit Plan we further set out that for Devon and Somerset Fire and Rescue Authority, the greatest risk of material misstatement relates to Group Revenue. We therefore identified the occurrence and accuracy of Red One Ltd trading income as a significant risk of material misstatement, and a key audit matter. Albert Goodman have completed their audit of the subsidiary company and have identified no issues regarding revenue recognition. We have reviewed their work, and we are satisfied that their findings are reflective of the work completed. We are therefore able to conclude that there are no issues to report in relation to revenue recognition.

Progress against significant risks identified

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.	We reconsidered this rebuttal on receipt of the draft financial statements and concluded that this remained appropriate. No specific work is planned as the presumed risk has been rebutted. Our general expenditure testing to date has not identified any significant issues, and Red One Limited's auditors did not identify any matters in relation to expenditure recognition.

Progress against significant risks identified

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. All assets are revalued each year, either through a detailed or desktop valuation.	To date we have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluated the competence, capabilities and objectivity of the valuation expert; • written to the valuer to confirm the basis on which the valuation was carried out; and • tested revaluations made during the year to see if they had been input correctly into the Authority's asset register. We are currently completing our work: • challenging 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. Our work to date has identified 2 amendments that we wish to bring to your attention: • During our examination of the accounting policies, it was observed that the current Depreciation Policy states, "Vehicles, plant, and furniture and equipment (UPFE) – useful economic life (UEL) assessed to range from 5-7 years." However depreciation is calculated on VPFE using UPFEs ranging from 5-30 years. We are satisfied with the UELs used as these represent the diverse range of assets. We have therefore requested that the accounting policy be updated to reflect the application. • We also noted that note 11.1 was not fully Code compliant. This not should reflect the assets revalued over the past 5 years. This current shows those assets valued in year. We have requested that this table be fully populated. No further issues have been noted as part of our work to date.

Progress against significant risks identified

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.	To date we have: • updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; and We are currently completing our work: • undertaking procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • considering assurances obtained from the auditor of the 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 pension fund financial statements. Our work to date has identified no significant issues.

Key findings arising from the group audit

Component	Component auditor	Findings	Group audit impact
Red One Limited	Albert Goodman LLP	This is the second year that the Authority has produced Group Accounts. In 2021/22 we reported that a number of amendments were required to the Groups statements and supporting notes. We are pleased to report that our work in this area is complete, and we have no significant issues to report. One small amendment was made to ensure the Authorities related party note was aligned to the balances with Red One agreed as part of the Group Audit. Red One Limited's Auditors have concluded their audit prior to the Authority producing its draft financial statements. They reported that there were no unadjusted misstatements, or any other significant matters. As part of our procedures, we have reviewed Red One Limited's auditors work and have concluded that the findings are in line with the work completed and sufficient assurance was gained. We have completed our detailed group procedures including the consolidation of the subsidiary and have no issues to report in this regard.	Our work on the group is complete.

Sector Update

Authorities continue to try to achieve greater efficiency in the delivery of public services, whilst facing challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- Grant Thornton Publications
- Insights from local government sector specialists
- Reports of interest
- Accounting and regulatory updates

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local government

Exploring the reasons for delayed publication of audited local authority accounts in England – Grant Thornton

Recent performance against target publication dates for audited local authority accounts in England has been poor. There are some reasons for optimism that there will be an improvement in the timeliness of publication of audited accounts as foundations are being laid for the future.

In this report we explore the requirements for publication of draft and audited accounts and look at some of the reasons for the decline in performance against these requirements over time. Only 12% of audited accounts for 2021/22 were published by the target date of 30 November 2022. There is no single cause for the delays in completing local authority audits, and unfortunately there is no quick solution in a complicated system involving multiple parties. We consider a variety of factors contributing to delays, note the measures which have already been taken to support the local audit system and make recommendations for further improvement.

There are some reasons for cautious optimism that the system will begin to recover and there will be a gradual return to better compliance with publication targets. However, we consider that these are outweighed by a number of risk factors and that the September deadline for audited accounts set by DHLUC is not achievable in the short term and also not achievable until there is further significant change in local audit and local government.

We note the following matters that are yet to be tackled:

- clarity over the purpose of local audit
- the complexity of local government financial statements
- agreement on the focus of financial statements audit work
- an improvement in the quality of financial statements and working papers

an agreed approach to dealing with the backlog of local government audits

Government intervention where there are significant failures in financial reporting processes

All key stakeholders including local audited bodies, the audit firms, the Department for Levelling Up Housing and Communities, PSAA, the NAO, the FRC and its successor ARGA, CIPFA and the Institute of Chartered Accountants in England and Wales will need to continue their efforts to support a coherent and sustainable system of local audit, acknowledging that it will take time to get things back on track.

We make recommendations in our report for various stakeholders, including Audit Committees and auditors, and include a checklist for consideration by management and Audit Committees within an Appendix to the report.

Read the full report here:

[Report: key challenges in local audit accounting | Grant Thornton]

Call for sanctions for late accounts amid fears of 'more Wokings - public accounts committee (PAC)

The Commons' public accounts committee (PAC) published a report, Timeliness of local auditor reporting, which highlights problems caused by the delays to local audit.

Just 12% of local government bodies received their audit opinions in time to publish their 2021-22 accounts by the extended deadline. The committee warned that the problem is likely to get worse before it gets better.

The report points out that there are no sanctions for failing to produce accounts on time, for either auditors or authorities.

The PAC and others have been concerned about the implications of audit delays and Sir Geoffrey Clifton-Brown said cases like that of Thurrock Council and Woking Borough Council demonstrate why this issue needs to be addressed. Both councils had years of unaudited accounts when they declared themselves effectively bankrupt due to excessive levels of debt.

LGPS valuation gives 'cause for optimism' – Hymans Robertson

Many Local Government Pension Schemes are in a stronger position than three years ago to meet future member benefits, pension advisors have said following the most recent valuations.

Despite market instability brought on by Covid-19 and exacerbated by Russia's invasion of Ukraine, the overall funding level rose to 107% of past service in March 2022, compared to 98.5% in 2019, Hymans Robertson said in a report.

Analysts reviewed the triennial valuations of 73 of the 86 LGPS funds, and said that on average fund asset values rose by 27.5% up to March 2022.

Hymans Robertson said the better-than-expected funding outlook has prompted a reduction in employer contributions, from 21.9% of pay in 2019 to 20.8% in 2022.

Robert Bilton, head of LGPS valuations at Hymans Robertson, said: "Our analysis gives cause for optimism that the outlook for the long-term funding sustainability of the LGPS is robust, not least due to the hard work that has taken place across all funds over the last decade and longer.

"While the good news is welcome, the hard work doesn't stop, and it is important that funds use the next two years to continue to systematically review their risks to keep them in the best place possible ahead of the valuations in 2025."

The report said funding levels rose by the most for schemes that were already better-funded in 2019, but balances increased "across the board" in all funds that were reviewed.

Researchers said higher asset values mean funds will only need to deliver real investment returns of about 1.5% per year over the next 20 years to ensure they are fully funded.

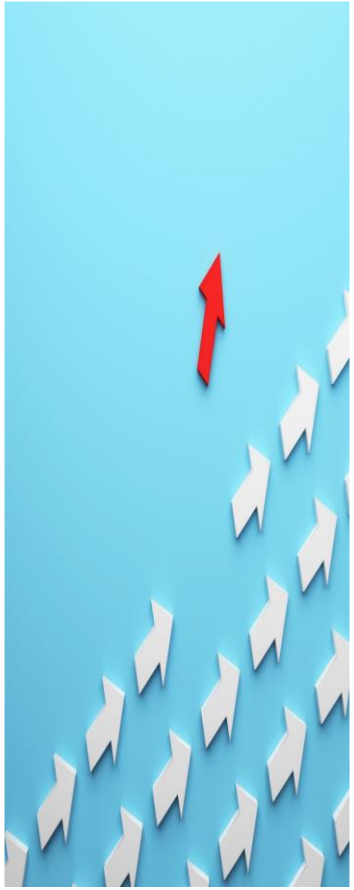
Hymans said it expects more than three-quarter (77%) of funds to be able meet the annual level of investment returns by 2040.

"This is a very positive funding position for the LGPS, Considering that, not so long ago, the Scheme Advisory Board had set up a 'deficit working group' and the significant market events that the LGPS has had to navigate in recent years."

"Being in such a strong position is a testament to the diligent and hard work of administering authorities over the last decade."

Read the full report here

LGPS_2022_Valuation_-_the_big_picture.pdf (hymans.co.uk)



Sustainability reporting in the public sector - CIPFA

CIPFA said, 'Sustainability reporting in the public sector is in its infancy, and there is an evolutionary journey to be embarked upon – sooner rather than later.'

Sustainability reporting is the recording and disclosure of an organisation's environmental impact caused by its activities. It has been widely adopted in the private sector, but in the public sector it is not the same story.

Having a clear understanding of the overall carbon footprint of the public sector is vital if we are to tackle climate change, find solutions and encourage sustainable development, said CIPFA.

CIPFA report states, 'the answers and positive steps to addressing the most pressing challenges around public sector sustainability questions. The current patchwork of public sector sustainability reporting frameworks are inconsistent and confusing. The report draws on already existing standards and frameworks that are relevant and useful to the public sector, rather than trying to reinvent the wheel.'

Alignment to financial reporting

The report recommends an approach that aligns sustainability reporting with the wider practice of financial reporting. The four key areas in this approach are governance, the management approach, performance and targets, and strategy. 'Public sector sustainability reporting: time to step it up' provides public finance professionals with a good understanding of what information needs to be disclosed and the process in producing a high quality report.

Read the full report from CIPFA here

Sustainability Reporting (cipfa.org)

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