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Date : 24th April 2017

Telephone : 01392 872200

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Our ref :

Please ask for : Kevin Woodward
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Dear Peter,

Devon and Somerset Fire and Rescue Authority
Financial Statements for the year ended 31 March 2017

I refer to your letter dated 11 January relating to your need, under International Auditing Standards, to better understand the management processes in place to prevent cases of fraud and corruption and compliance with laws and regulation, and provide as Appendix A my responses to the specific requests that you have made.

In providing such responses I provide further information relating to a summary of evidence that I have relied on to inform my responses, and the sources of assurance that I have that the relevant management controls have operated effectively through the financial year to date and will operate up to the date the accounts are approved.

Summary of Evidence

- Compliance with Whistle Blowing Policy.
- Results of National Fraud Initiative.
- Information provided by statutory officers of Treasurer and Monitoring Officer with responsibility to ensure that the business of the Service is conducted within the law.
- Inter Authority Agreement relating to the provision of Legal, Governance and other services with Devon County Council, Plymouth City Council, Torbay Council and Cornwall Council.
- Compliance with Fraud and Corruption Policy encouraging high standards of conduct and integrity.
- Reports to Executive Board of suspicion of fraudulent activity.
- Internal and external audit reports.
- Compliance with Authority Financial Regulations, Scheme of Delegations and Contract Standing Orders.
- Review of Anti-Fraud and Corruption Arrangements 2011.
- Monitoring of issues of fraud and corruption from Risk and Insurance Officer.
- Establishment of new internal Self-Assessment process/toolkit –FRA Member approved and endorsed by Grant Thornton/Devon Audit Partnership

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Sources of Assurance

- Application of robust internal controls being applied to transactions throughout the organisation e.g. separation of duties, authorised signatory lists, all payments over £20,000 are subject to Authorised bank signatory before released.
- Executive Board members review of all supplier payments over £50,000 on a quarterly basis.
- All year-end journal entries processed by central finance team and reviewed.
- New suppliers/debtors can only be set up by central finance team.
- Analytical review of figures with previous year.
- Regular reconciliation processes in place e.g. monthly bank reconciliation, payroll, purchase ledger, sales ledger, and cash management ledger.
- Annual Internal Audit review of financial systems and transactions.
- Annual Statement of Assurance.

I trust that this provides you with the key information required for you to obtain the necessary understanding of the position in my Authority but please come back to me if there is anything further that might assist you.

Yours sincerely,

Kevin Woodward
Treasurer to Devon and Somerset Fire and Rescue Authority

APPENDIX A

Audit Question	Management response
<p>What do you regard as the key events or issues that will have a significant impact on the financial statements for 2016-17?</p>	<p>Changes to the CIPFA code in regards to the presentation of the key statements which require restatement of the prior year for comparison and explanatory notes.</p> <p>Consideration will be given to the establishment of a provision for the Emergency Services Mobile Communications Programme, over which there is a high level of uncertainty.</p>
<p>Have you considered the appropriateness of the accounting policies adopted by the Authority? Have there been any events or transactions that may cause you to change or adopt new accounting policies?</p>	<p>Yes. No changes identified.</p>
<p>Are you aware of any changes to the Authority regulatory environment that may have a significant impact on the Authority's financial statements?</p>	<p>No.</p>
<p>How would you assess the quality of the Authority's internal control processes?</p>	<p>I would assess as good and fit for purpose.</p>
<p>How would you assess the process for reviewing the effectiveness of internal control?</p>	<p>The officer Corporate Governance group meet twice a year to monitor the effectiveness of internal control processes to feed into Annual Assurance Report.</p> <p>Monitoring of issues of fraud and corruption identified.</p> <p>Reliance on outcomes from internal and external audit reports.</p>
<p>How do the Authority's risk management processes link to financial reporting?</p>	<p>Representation on the Corporate Governance Group of members of Risk and Insurance Team and Finance.</p>
<p>How would you assess the Authority's arrangements for identifying and responding to</p>	<p>Annual review of Authority Governance Documents, including Strategy on the</p>

Audit Question	Management response
the risk of fraud?	<p>Prevention and Detection of fraud and corruption.</p> <p>Monitoring of issues of fraud and corruption identified through the work of the Insurance and Risk Team.</p> <p>Periodic review of Anti-Fraud and Corruption arrangements.</p>
What has been the outcome of these arrangements so far this year?	No changes to existing documents and no potential case of fraud identified.
What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?	<p>Payroll costs relating to the Retained Duty System (RDS), approx. £12m per annum, includes some elements that are paid by claims on a pay-as-you-go basis. Without robust internal control arrangements this area of spend could be subject to abuse from fraud.</p> <p>Loss of Earnings claims by RDS personnel is an area where previous cases of dishonest/fraudulent claims have been identified.</p>
Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?	Yes, one case which is currently subject to an internal grievance procedure.
Have any reports been made under the Bribery Act?	None.
As a management team, how do you communicate risk issues (including fraud) to those charged with governance?	<p>The Strategy on Prevention and Detection of Fraud and Corruption Document includes reporting arrangements for cases of suspected fraud, including reporting to Members of the Authority.</p> <p>Internal Audit reports to the Audit and Performance Review Committee will include any suspected fraud cases.</p>
As a management team, how do you communicate to staff and employees your views on business practices and ethical behaviour?	<p>Whistle blowing policy and anti-fraud and corruption policy encourages staff to speak up, and identifies action to take in cases of suspected fraudulent activity.</p> <p>Publication of Core Values.</p>

Audit Question	Management response
What are your policies and procedures for identifying, assessing and accounting for litigation and claims?	<p>Risk and Insurance Team headed by the Insurance and Risk Manager holds responsibility for assessing potential litigation and claims against the Service.</p> <p>As members of the Fire Lawyers Network and Fire Finance Network Group issues of a national nature that may impact on the Authority are reported.</p>
Is there any use of financial instruments, including derivatives?	None other than the routine instruments such as debtors and creditors as disclosed in the Financial Statements.
Are you aware of any significant transaction outside the normal course of business?	None.
Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	None.
Are you aware of any guarantee contracts?	None.
Are you aware of allegations of fraud, errors, or other irregularities during the period?	One case of potential errors relating to cross-charging to the Authority's trading company Red One Ltd.
Are you aware of any instances of non-compliance with laws or regulations or is the Authority on notice of any such possible instances of non-compliance?	An assessment is being made of whether the potential errors relating to cross-charging to the Authority's trading company (Red One Ltd.) between April 2013 and March 2016 has implications under the Local Government (Power to Trade) Order 2009 and State Aid legislation. This assessment is expected to be completed by the end of June/July 2017.
Have there been any examinations, investigations or inquiries by any licensing or authorising bodies or the tax and customs authorities?	None in 2016-17.
Are you aware of any transactions, events and conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement?	None other than those critical judgements included in the Financial Statements.
Where the financial statements include amounts based on significant estimates, how have the accounting estimates been made, what is the	Amounts included in the Financial Statements as Provisions:

Audit Question	Management response
<p>nature of the data used, and the degree of estimate uncertainty inherent in the estimate?</p>	<p><u>Pension Liability</u> – the estimated liability has been assessed on the basis of potential claims. This assessment is based upon a “likely scenario” but carries some element of risk that more claimants come forward than estimated.</p> <p><u>Severn Park Private Finance Initiative (PFI)</u> – the estimated liability has been provided been provided by Gloucestershire County Council who lead on the financial arrangements for the project. The liability will be subject to variations from the impact of the economy on future interest rates.</p> <p><u>The use of estimates for operating expenditure and pension fund</u> – Due to shortening timescales for production of the Financial Statements, greater reliance will be placed on the use of estimates particularly regarding pension funds for fire fighters and the local government schemes, where 11 months of data will be used to inform the actuarial report. Estimates have been reviewed for appropriateness at interim audit and agreed with the auditor.</p>
<p>Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?</p>	<p>None.</p>
<p>Has the management team carried out an assessment of the going concern basis for preparing the financial statements? What was the outcome of that assessment?</p>	<p>The Medium Term Financial Plan (MTFP) has forecast funding levels for the next five years to inform future planning.</p> <p>No critical risks around the ability of the Service to continue to operate as a going concern in this period have been identified.</p>
<p>Other than in house solicitors, can you provide details of those solicitors utilised by the Authority during the year. Please indicate where they are working on open litigation or contingencies from prior years?</p>	<p>Ashford's, Foot Anstey, Browne Jacobson, together with Cornwall Council and Plymouth City Council legal services have been used by the Authority to provide legal advice and services where required. Cornwall Council and Plymouth City Council Legal Services are</p>

Audit Question	Management response
	both working on open litigation cases.
Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	External Tax advisor provided advice relating to the application of tax exemptions. External Accountancy firm to undertake work associated with the potential errors relating to cross-charging to the Authority's trading company (Red One Ltd.)
Have any of the Authority's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	Potential errors relating to cross-charging to the Authority's trading company (Red One Ltd.) between April 2013 and March 2016 has implications under the Local Government (Power to Trade) Order 2009 and State Aid legislation.