

The Audit Findings for Devon and Somerset Fire and Rescue Authority

Year ended 31 March 2017

30 August 2017

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30 August 2017

Dear Members of the Audit and Performance Review Committee

Audit Findings for Devon and Somerset Fire and Rescue Authority for the year ending 31 March 2017

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of Devon and Somerset Fire and Rescue Authority, the Audit and Performance Review Committee), to oversee the financial reporting process, as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with officers

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland) ('ISA (UK&I)'), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose misappropriations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

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

Yours sincerely

Peter Barber
Engagement lead

Chartered Accountants

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Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

Purpose of this report

This report highlights the key issues affecting the results of Devon and Somerset Fire Authority ('the Authority') and the preparation of the Authority's financial statements for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Authority's financial statements give a true and fair view of the financial position of the Authority and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. .

We are also required to consider other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report, whether it is consistent with the financial statements, apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Authority acquired in the course of performing our audit; or otherwise misleading.

We are required to carry out sufficient work to satisfy ourselves on whether the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion'). Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Authority or brought to the public's attention (section 24 of the Act);
- written recommendations which should be considered by the Authority and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act).

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated April 2017.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- review of the final version of the financial statements
- obtaining and reviewing the management letter of representation
- review of revised versions of the Annual Statement of Assurance
- updating our post balance sheet events review, to the date of signing the opinion; and
- Whole of Government Accounts

We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable.

Key audit and financial reporting issues

Financial statements opinion

We have not identified any adjustments affecting the Authority's reported financial position. The draft financial statements presented for audit were free from material error.

We have recommended a number of adjustments to improve the presentation of the financial statements.

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

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

Further details are set out in section two of this report.

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B).

Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes if the AGS and Narrative Report is misleading or inconsistent with the information of which we are aware from our audit.

Based on our review of the Authority's Narrative Report and AGS we are satisfied that they are consistent with the audited financial statements. We are also satisfied that the AGS meets the requirements set out in the CIPFA/SOLACE guidance and that the disclosures included in the Narrative Report are in line with the requirements of the CIPFA Code of Practice.

Controls

Roles and responsibilities

The Authority's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Authority.

Findings

We draw your attention in particular to control issues identified in relation to:

- Journal entries were posted by the Head of Finance during the year
- Our testing identified journals that did not have appropriate backing documentation to support them
- Red One Ltd – general working arrangements and cross charging.

Further details are provided within section two of this report.

Value for Money

Based on our review, we are satisfied that, in all significant respects, the Authority had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Further detail of our work on Value for Money are set out in section three of this report.

Other statutory powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

Further details of our work on other statutory powers and duties is set out in section four of this report.

The way forward

Matters arising from the financial statements audit and our review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Treasurer and the Head of Finance.

We have made a number of recommendations, which are set out in the action plan at Appendix A. Recommendations have been discussed and agreed with the Treasurer and the finance team.

Acknowledgement

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

Grant Thornton UK LLP
August 2017

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £1,767k (being 2% of your 2015/16 gross revenue expenditure) We have considered whether this level remained appropriate at the post-statements stage and your 2016/17 draft statements recorded a reduced level of gross revenue expenditure, leading us to revise our overall materiality to £1,652k (being 2% of your 2016/17 gross revenue expenditure).

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £83k. Our assessment of the value of clearly trivial matters has been adjusted to reflect our revised materiality calculation.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate. These remain the same as reported in our audit plan

Balance/transaction/disclosure	Explanation	Materiality level
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£10,000
Disclosure of auditors' remuneration in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£10,000
Disclosure of members' allowances in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£10,000

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

Audit findings against significant risks

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<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 have 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>Our audit work has not identified any issues in respect of revenue recognition.</p>
<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>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • review of journal entry process and selection of unusual journal entries for testing back to supporting documentation • review of accounting estimates, judgements and decisions made by management • review of unusual significant transactions. 	<p>Our audit work has not identified any evidence of management over-ride of controls. However, our journals testing has identified the following issues</p> <ul style="list-style-type: none"> • The Head of Finance had the ability to post journals • Our testing of large and unusual journals identified four journals that did not have sufficient backing documentation to support them • Journals are not required to be authorised by another member of staff <p>We set out later in this section of the report our work and findings on journals, and key accounting estimates and judgements.</p>

"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&I) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p>The expenditure cycle includes fraudulent transactions Practice Note 10 requires us to consider the risk of material misstatement due to fraudulent financial reporting that may arise from manipulation of expenditure recognition, especially where the body is required to meet targets.</p>	<p>We do not consider this to be a risk for the audit as our experience shows that expenditure is well controlled and monitored. In addition, of the 2016/17 budgeted expenditure (based on the Q2 outturn reports),</p> <ul style="list-style-type: none"> -74% relates to employee remuneration, which is addressed by our procedure in response to the identified risk in this area -19% relates to operating expenditure which is addressed by our procedures in response to the identified risk in this area. 	<p>We do not consider this to be a risk for Devon and Somerset Fire and Rescue Authority, therefore no further work undertaken.</p>

Audit findings against significant risks continued

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p>Valuation of property, plant and equipment The Authority revalues its assets on a rolling basis on a yearly basis. 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>	<ul style="list-style-type: none"> • Review of management's processes and assumptions for the calculation of the estimate. • Review of the competence, expertise and objectivity of any management experts used. • Review of the instructions issued to valuation experts and the scope of their work • Discussions with the Authority's valuer about the basis on which the valuation was carried out, challenging the key assumptions. • Review and challenge of the information used by the valuer to ensure it was robust and consistent with our understanding. • Testing of revaluations made during the year to ensure they were input correctly into the Authority's asset register • Application of market indices to carry out our own desktop valuation and comparison of this to the valuation expert's valuation • Evaluation of the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value. 	<p>Our verification testing of assets on the fixed assets register identified water rescue equipment consisting of small items of plant and machinery, including cones, wrenches and saws, that had been capitalised as one asset and could not be physically verified. The Authority should review its capitalisation policy to ensure that items that would normally be revenue expenditure are not grouped together and treated as Property Plant and equipment.</p> <p>Overall, our work has concluded that the carrying value of your Property Plant and equipment is not materially misstated.</p>
<p>Valuation of pension fund net liability The Authority's pension fund net liability, as reflected in its balance sheet, represents a significant estimate in the financial statements.</p>	<ul style="list-style-type: none"> • Identifying the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessing whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement. • Review of the competence, expertise and objectivity of the actuary who carried out the Authority's pension fund valuation. • Gaining an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made. • Review of the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary. 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Employee remuneration</p>	<p>Payroll expenditure represents a significant percentage of the Authority's gross expenditure.</p> <p>We identified the completeness of payroll expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> Employee remuneration accruals understated (Remuneration expenses not correct) 	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding substantive testing of employees for accuracy of payment and the agreement of employee remuneration disclosures to supporting documentation. Review of the year end payroll reconciliation to ensure that information from the payroll system can be agreed to the ledger and the financial statements. Review of monthly trend analysis of employee costs for the year to identify any unusual or irregular movements. 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
<p>Operating expenses</p>	<p>Non-pay expenditure represents a significant percentage of the Authority's gross expenditure. Management uses judgement to estimate accruals of un-invoiced non-pay costs.</p> <p>We identified the completeness of non-pay expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> Creditors understated or not recorded in the correct period (Operating expenses understated) 	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding substantive testing of a sample of operating expenses to ensure they have been accurately accounted for and in the correct period. review for unrecorded liabilities, review of payments made after the year end and invoices registered in April. review of creditors / liability balances for unusual amounts, including testing of accruals and review of estimation techniques. 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Fire Pensions Benefits Payable</p>	<p>Benefits improperly computed / Claims liability understated</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding Agreement of 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 2016 to 31 March 2017 to ensure that they have been accurately accounted for and in the correct period. 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
<p>Changes to the presentation of local authority financial statements</p>	<p>CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 CIPFA Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented and evaluated the process for the recording the required financial reporting changes to the 2016/17 financial statements reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Authority's internal reporting structure reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS) tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

Going concern

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK&I) 570). We reviewed the management's assessment of the going concern assumption and the disclosures in the financial statements and concluded that there is sufficient evidence to conclude that the entity is able to continue as a going concern.

Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Authority's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> • The main sources of revenue for the Authority are Council Tax and Government Grants. • The Authority has set out its policy for revenue and funding in the accounting policies reported in the financial statements 	<p>We have reviewed the Authority's recognition of revenue policies and are satisfied that :</p> <ul style="list-style-type: none"> • Appropriate policies have been used • Accounting policies have been adequately disclosed • Revenue had been appropriately recognised 	<p style="text-align: center;">● Green</p>
Judgements and estimates	<ul style="list-style-type: none"> • Key estimates and judgements include <ul style="list-style-type: none"> – Useful life of PPE – Revaluations – Impairments – Accruals – Valuation of pension fund net liability – Other provisions 	<p>The PFI equalisation provision does not appear to meet the criteria for a provision under IAS37 and should be treated as a reserve.</p>	<p style="text-align: center;">● Amber</p>



Assessment

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
Going concern	The Treasurer, s151 officer has a reasonable expectation that the services provided by the Authority will continue for the foreseeable future. Members concur with this view. For this reason, the Authority continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Authority's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2016/17 financial statements.	 Green
Other accounting policies		We have reviewed the Authority's policies against the requirements of the CIPFA Code of Practice. The Authority's accounting policies are appropriate and consistent with previous years.	 Green

Assessment

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

Other communication requirements



We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit and Performance Review Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
2.	Matters in relation to related parties	<ul style="list-style-type: none"> From the work we carried out, we have not identified any related party transactions which have not been disclosed
3.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Authority.
5.	Confirmation requests from third parties	<ul style="list-style-type: none"> We obtained direct confirmations from the Public Works Loan Board (PWLB) for loans and requested from management permission to send confirmation requests for bank and investment balances . This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.
6.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements



Other communication requirements continued

	Issue	Commentary
7.	Matters on which we report by exception	<ul style="list-style-type: none"> We are required to report on a number of matters by exception in a number of areas: <p>We have not identified any issues we would be required to report by exception in the following areas</p> <ul style="list-style-type: none"> If the Annual Governance Statement (Annual Statement of Assurance) does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit If the information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Authority acquired in the course of performing our audit, or otherwise misleading.
8.	Specified procedures for Whole of Government Accounts	We are not required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions as the Authority is below the £350m threshold.



Internal controls

	Assessment	Issue and risk	Recommendations
1.	 Deficiency	<p>Journal controls</p> <ul style="list-style-type: none"> In our interim audit we had been informed that the Head of Finance did not have access to post journals on the general ledger. We have now established that this was not correct as there were journals posted on the Head of Finance's log in details by another member of the finance team who was working with her at the time. Our testing of large and unusual journals identified four journals that did not have sufficient backing documentation to support them. We also identified in the interim audit that journals were not required to be authorised by another member of staff. The Authority introduced an interim solution of a retrospective review of significant journals and a random sample of others. We are satisfied that this has been implemented while the Authority investigates a workflow approval on the general ledger system. 	<ul style="list-style-type: none"> Senior finance officers (Treasurer and Head of Finance) should not have access to post journals. All journals should be supported by sufficient backing documentation. The Authority should introduce a journal approval process on the finance system.
2.	 Deficiency	<p>IT Control Environment</p> <p>User accounts and their associated permissions in Active Directory were not being formally and proactively reviewed for appropriateness. It is our experience that access privileges tend to accumulate over time, especially during periods of change or where staff movement is high.</p> <p>There is a risk that users will accumulate privileges which will breach segregation of duties and security principles and that this will not be identified and dealt with in a timely manner leading to access to information resources and system functionality not being restricted on the basis of legitimate business need. This is exacerbated by the practice of copying user accounts to create new users.</p>	<ul style="list-style-type: none"> Management should consider performing periodic, formal reviews of the user accounts and permissions within Active Directory on at least an annual basis. The review should be a process that includes business functions and file shares to provide the confirmation of their users' requirements.

Assessment

-  Significant deficiency – risk of significant misstatement
-  Deficiency – risk of inconsequential misstatement

Internal controls

	Assessment	Issue and risk	Recommendations
3.	 Deficiency	<p>IT Control Environment Logs of information security activity within Capita Integra are not being formally, proactively, and routinely reviewed.</p> <p>This condition poses the following risk to the organisation: Without formal, proactive, and routine reviews of security event logs, inappropriate and anomalous security activity (e.g., repeated invalid login attempts, activity violating information security policies) may not identified and/or addressed in a timely manner</p>	<p>Given the criticality of data accessible through Capita Integra logs of information security events (i.e., login activity, unauthorised access attempts, access provisioning activity) created by these systems should be proactively, formally reviewed for the purpose of detecting inappropriate or anomalous activity. These reviews should ideally be performed by one or more knowledgeable individuals who are independent of the day-to-day use or administration of these systems.</p>
4.	 Deficiency	<p>Red One Ltd The Authority sought external advice in response to concerns over cross-charging between Authority and Red One Ltd and governance arrangements generally. The Authority have received reports highlighting areas for improvement and are in the process of implementing these recommendations.</p>	<p>The Authority must assure itself that the recommendations in relation to cross-charging and governance arrangements at Red One Ltd have been appropriately implemented.</p>

The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards

"The purpose of an audit is for the auditor to express an opinion on the financial statements.

Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK&I) 265)

Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	✓	<p>We observed in our testing of plant, property and equipment depreciation that some of the useful lives of assets varied quite significantly year on year due to an assessment made by the Estates team. Although we do not consider that this would pose a risk of a significant misstatement in the accounts we requested a written documentation or schedule of the assessments/considerations around each land and building asset and this was not available.</p> <p>We recommend that the Estates team documents their assessment of assets useful lives and particularly where they are making a significant adjustment to the useful life that they produce a written schedule showing the reasons for this change.</p>	<p>In the current year, we have obtained a schedule containing the changes in asset lives between 15/16 and 16/17. Where there has been a change in the asset life, this schedule sets out a brief description of the reasons for the change.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

Unadjusted misstatements

The table below provides details of adjustments identified during the audit which have not been made within the final set of financial statements. The Audit and Performance Review Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Reason for not adjusting
1 The PFI equalisation provision does not appear to meet the criteria for a provision under IAS37 and should be treated as a reserve.	(295)	295	The adjustment is not material. The treatment will be reviewed for 2017/18.
Overall impact	(295)	295	

Misclassifications and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Disclosure	19	Note 23.2 Senior Officer Remuneration	Senior officer remuneration has been understated by £19k due to a number of new expense codes being omitted from the report which was used to produce the note. Amendment agreed with client
2 Disclosure	N/A	N/A	A number of amendments have been made to the draft accounts to correct minor disclosure and presentational issues that do not warrant being individually reported to Those Charged with Governance.

Section 3: Value for Money

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non-audit services and independence

06. Communication of audit matters

Background

We are required by section 21 of the Local Audit and Accountability Act 2014 (the Act) and the NAO Code of Audit Practice (the Code) to satisfy ourselves that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Authority. The Act and NAO guidance state that for local government bodies, including fire authorities, auditors are required to give a conclusion on whether the Authority has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2016. AGN 03 identifies one single criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

Risk assessment

We carried out an initial risk assessment in March 2017 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated April 2017.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

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

Significant qualitative aspects

AGN 03 requires us to disclose our views on significant qualitative aspects of the Authority's arrangements for delivering economy, efficiency and effectiveness.

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

- The Authority has a balanced Medium Term Financial Plan over the period to 2020/21 and that the planning assumptions within this are reasonable.
- The Authority continues to play a lead role on collaborating with other bluelight partners locally.

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work on page 27.

Overall conclusion

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

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

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

Key findings

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

Significant risk	Work to address	Findings and conclusions
<p>Medium Term Financial Planning</p> <p>The Authority continues to face financial pressures with further cuts being made in central government funding. The settlement covering the four years 2016/17 to 2019/20 totalled a 25% grant cut.</p>	<p>We reviewed the Authority's latest Medium Term Financial Plan (MTFP), the Efficiency Plan and the 2017/18 budget, considering the robustness of the assumptions that underpin the figures within them. We will also review the 2016/17 outturn position against the budget.</p>	<p>The Authority set a balanced budget for the 2017/18 financial year, with a Council Tax increase of 1.99% being agreed. Budgeted savings within this were £2.3 million, consisting of £0.860 million from non staff budget lines, £0.202 million from support staff and £1.280 million from operational posts. The balanced budget position includes a transfers of £0.579 million from the CSR strategy reserve, which was intended as a smoothing mechanism during the austerity period.</p> <p>The current MTFP runs to 2021/22 with the savings requirement over that period being £3.6 million based on council tax increases of 1.99% each year. 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 applied for the 4 year funding settlement on offer from the government, which has allowed it to plan with more certainty over the medium term.</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. The 2016/17 outturn was £2.2 million below budget. This was due to the continued implementation of agreed Corporate Plan changes and ongoing identification of savings. The bulk of this underspend has been allocated to the Authority's Funding Pressures Reserve to meet future budget challenges.</p> <p>On that basis we concluded that the risk was sufficiently mitigated and the Authority has proper arrangements.</p>
<p>Collaborate Partnership</p> <p>The Authority are progressing with opportunities to collaborate with the Strategic Alliance of Dorset Police and Devon & Cornwall Police.</p>	<p>We reviewed the arrangements the Authority are putting into place for collaborative working under the Strategic Alliance.</p>	<p>The Collaborative Partnership between Devon and Somerset Fire, Dorset Police and Devon on Cornwall Police is currently on hold. Some business cases are underway, however these have not been formalised as the matters within them are still subject to discussion between the parties.</p> <p>However the Authority continues to progress other areas of blue light collaboration. The South West Emergency Services Collaboration (SWESC) Programme involves five police bodies, five fire authorities and one ambulance trust. A programme brief setting out the governance structure and objectives of the programme was prepared in October 2016.</p> <p>Our review of SWESC shows that good governance arrangements are in place in relation to blue light collaboration in the South West, with an appropriate governance structure established and regular meetings held which are minuted appropriately.</p> <p>On that basis we concluded that the risk was sufficiently mitigated and the Authority has proper arrangements.</p>

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Any other matters

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

Section 5: Fees, non-audit services and independence

01. Executive summary

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06. Communication of audit matters

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

Fees

	Proposed fee £	Final fee £
Authority audit	33,820	33,820
Total audit fees (excluding VAT)	33,820	33,820

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

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority. The table below summarises all other services which were identified.

Fees for other services

Service	Fees £
Non-audit services	
• Forensic Review	4,890
• Provision of P11D Advice	650

Independence and other services

We have considered whether other services might be perceived as a threat to our independence as the Authority's auditor and have ensured that appropriate safeguards are put in place

	Service provided to	Fees	Threat?	Safeguard
Audit related services				
	None			
Non-audit services				
Forensic Review	Devon and Somerset Fire and Rescue Authority	£4,890	• No	The fee level is not significant in relation to the overall fee of £33,820, the audit team are not carrying out the work, fact finding review only.
Provision of P11D Advice	Devon and Somerset Fire and Rescue Authority	£650	• No	Fee is not significant compared to the overall fee of £33,820, a separate team have completed the work.
	TOTAL	£5,540		

The above non-audit services are consistent with the Authority's policy on the allotment of non-audit work to your auditor

Section 6: Communication of audit matters

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Communication to those charged with governance

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

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Authority's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Authority's key risks when reaching our conclusions under the Code.

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 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	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
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	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report, or emphasis of matter		✓
Unadjusted misstatements and material disclosure omissions		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓

Appendices

A. Action Plan

B. Audit Opinion

A. Action plan

Rec no.	Recommendation	Priority	Management response	Implementation date and responsibility
1	Senior finance officers (Treasurer and Head of Finance) should not have access to post journals.	Medium	Access to post journal had been previously been revoked in the Finance System however this hadn't prevented an accidental posting. Following consultation with our software provider access is now confirmed as removed.	Head of Finance - May 2017
2	All journals should be supported by sufficient backing documentation	High	Detailed working papers to be attached to each journal before approval via the finance system	Assistant Head of Finance – October 2017
3	The Authority should introduce a journal approval process on the finance system.	Medium	This is a new requirement and the capability to approve journals via the finance system is currently being set up.	Assistant Head of Finance - October 2017
4	The Authority should review their policies on capitalisation of assets in order to ensure that smaller revenue items are not grouped together and recorded as capital expenditure.	Medium	The policy has been reviewed and a control process put in place to ensure that smaller items are not grouped and then capitalised. As a result of the review, the capital and revenue budgets have been amended during 2017/18 as fewer items will be capitalised.	Senior Finance Manager – September 2017
5	Management should consider performing periodic, formal reviews of the user accounts and permissions within Active Directory on at least an annual basis. The review should be a process that includes business functions and file shares to provide the confirmation of their users' requirements.	Medium	<p>Ideally, we would like to have a nominated person/post responsible for each information asset and get them to verify access permissions to those assets on an annual basis.</p> <p>We are currently in the process of identifying all the information asset owners.</p> <p>In the meantime, we will undertake an annual review of access to certain business critical systems, including finance.</p>	ICT Service Delivery Manager – March 2018

Controls

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

A. Action plan

Rec no.	Recommendation	Priority	Management response	Implementation date and responsibility
6	Given the criticality of data accessible through Capita Integra logs of information security events (i.e., login activity, unauthorised access attempts, access provisioning activity) created by these systems should be proactively, formally reviewed for the purpose of detecting inappropriate or anomalous activity. These reviews should ideally be performed by one or more knowledgeable individuals who are independent of the day-to-day use or administration of these systems.		DSFRS are in the process of procuring a log management system that will better enable us to track inappropriate or anomalous activity.	ICT Service Delivery Manager – March 2018
7	The Authority must assure itself that the recommendations in relation to cross-charging and governance arrangements at Red One Ltd have been appropriately implemented.		The action plan and recommendations for cross-charging have been implemented during 2017/18. Governance arrangements recommendations are currently under review and an action plan is being developed.	Head of Finance – September 2017 Director of Corporate Services – December 2017

Controls

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

B: Audit opinion

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DEVON AND SOMERSET FIRE AND RESCUE AUTHORITY

We have audited the financial statements of Devon and Somerset Fire and Rescue Authority (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Movement in Reserves and the related notes and include the firefighters' pension fund financial statements comprising the Fund Account, the Net Assets Statement and the related notes 1 to 4. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

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

Respective responsibilities of the Treasurer and auditor

As explained more fully in the Statement of Responsibilities for the accounts, the Treasurer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Treasurer and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report and the Annual Statement of Assurance to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements present a true and fair view of the financial position of the Authority as at 31 March 2017 and of its expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report, and the Annual Statement of Assurance for the financial year for which the financial statements are prepared is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Statement of Assurance does not comply with the guidance included in 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

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

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Respective responsibilities of the Authority and auditor

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

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

Scope of the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criteria as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, we are satisfied that in all significant respects the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of its resources for the year ended 31 March 2017.

Certificate

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

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

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