

Audit Progress Report and Sector Update

Devon and Somerset Fire and Rescue Authority
Year ending 31 March 2019

10 May 2019



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Introduction



Barrie Morris

Engagement Lead

T 0117 305 7708
M 07771 976684
E barrie.morris@uk.gt.com



Aditi Chandramouli

Engagement Manager

T 0117 305 7643
M 07920 743362
E aditi.chandramouli@uk.gt.com

This paper provides the Audit and Performance Review 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 a fire 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 Performance Review 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 www.grantthornton.co.uk

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 May 2019

Financial Statements Audit

We have started planning for the 2018/19 financial statements audit and have issued a detailed audit plan, setting out our proposed approach to the audit of the Authority's 2018/19 financial statements.

We commenced our interim audit in January 2019. Our interim fieldwork includes:

- Updated review of the Authority's control environment
- Updated understanding of financial systems
- Early work on emerging accounting issues
- Early substantive testing

There are no issues that we need to bring to the Committee's attention from the work we have completed to date.

The statutory deadline for the issue of the 2018/19 opinion is 31 July 2019. We are discussing our plan and timetable with officers.

The final accounts audit is due to begin on 10 June with findings reported to you in our Audit Findings Report. We will present our report at the July Audit and Performance Review Committee meeting and issue our audit opinion by the 31 July deadline.

Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

The guidance confirmed the overall criterion as: "in all significant respects, the audited body 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 three sub criteria for assessment to be able to give a conclusion overall are:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

Details of our initial risk assessment to determine our approach were included in our Audit Plan. We identified two significant Value for Money Risks – Medium Term Financial Planning, and Red One – and are currently carry out our audit work on this.

We will report our work in the Audit Findings Report and give our Value For Money Conclusion by the deadline in July 2019.

Other areas

Meetings

We met with Finance Officers in January and April as part of our quarterly liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective.

Events

We provide a range of workshops, along with network events for members and publications to support the Authority. Your officers attended our Financial Reporting Workshop in February, which helps to ensure that members of your Finance Team are up to date with the latest financial reporting requirements for local authority accounts.

Further details of the publications that may be of interest to the Authority are set out in our Sector Update section of this report.

Audit Deliverables

2018/19 Deliverables	Planned Date	Status
Fee Letter Confirming audit fee for 2018/19.	April 2018	Complete
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Audit and Performance Review Committee setting out our proposed approach in order to give an opinion on the Authority's 2018-19 financial statements.	January 2019	Complete
Interim Audit Findings We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	May 2019	Completed, included in this report
Audit Findings Report The Audit Findings Report will be reported to the July Audit and Performance Review Committee.	July 2019	Not yet due
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2019	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	August 2019	Not yet due

Authority responsibilities

In our Audit Plan presented to the Audit and Performance Review Committee in January 2019 we have communicated our expectations around the Authority's responsibilities for timely production of the draft accounts supported by appropriate working papers. Should delays be experienced in the provision of these requirements or should additional work be required on our part due to complex technical issues, new arrangements and delays in response to queries additional costs will be incurred.

Any additional fees are subject to approval by PSAA.

Results of Interim Audit Work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed	Conclusions and recommendations
Internal audit	<p>We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.</p>	<p>Overall, we have concluded that the internal audit service provides an independent and satisfactory service to the Authority and that internal audit work contributes to an effective internal control environment.</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p>
Entity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none">• Communication and enforcement of integrity and ethical values• Commitment to competence• Participation by those charged with governance• Management's philosophy and operating style• Organisational structure• Assignment of authority and responsibility• Human resource policies and practices	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Authority's financial statements</p>

	Work performed	Conclusions and recommendations
Review of information technology controls	<p>We performed a high level review of the general IT control environment, as part of the overall review of the internal controls system.</p> <p>IT (information technology) controls were observed to have been implemented in accordance with our documented understanding.</p>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Authority's financial statements. However, we note that the recommendation from both our 2016/17 and 2017/18 audits relating to setting up formal proactive reviews of information security events (such as monitoring login activity and unauthorised access attempts) has not yet been fully implemented.</p> <p>We have discussed this with officers who have stated that the Authority has put together a business case for a protective monitoring system which is progressing through the approval process.</p>
Documentation of business processes	<p>We have completed a detailed documentation of your key business processes including:</p> <ul style="list-style-type: none"> Payroll Accounts Payable Journals Property, Plant and Equipment Local Government and Firefighters Pension Scheme Investments and debt Accounts receivable Council tax and NNDR Cash <p>Our work has not identified any issues which we wish to bring to your attention</p>	<p>Overall, we have concluded that the business processes are appropriate in relation to the activities of the entity. Work in this area has not identified any weaknesses which impact on our audit approach</p>
Walkthrough testing	<p>We have completed walkthrough tests of the Authority's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements, including journals, pensions and property, plant and equipment.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Authority in accordance with our documented understanding.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p>

	Work performed	Conclusions and recommendations
Journal entry controls	<p>We have reviewed the Authority's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Authority's control environment or financial statements. As in prior years, our testing identified that journals were not authorised. A retrospective review of journals is in place and will be reviewed at year end.</p>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Authority's financial statements.</p> <p>Extraction and testing of journals assessed to be unusual will be undertaken as part of our final accounts work</p>
Early substantive testing	<p>We have started our substantive testing work with regards to firefighters pensions lump sums and commutations from April 2018 – February 2019.</p> <p>This work is underway and will be completed once we have received the evidence requested from West Yorkshire Pension Fund.</p>	<p>Our work is currently underway and will be concluded during the course of the final accounts audit. We will also test a sample of commutations and lump sums paid in March 2019</p>
Change in Service Providers	<p>During the 2018-19 financial year, there has been a change in service provider in relation to the firefighters pension scheme and payroll services. We have undertaken an exercise to ensure the completeness of the data transfer from the old provider to the new provider,</p> <p>Our work in respect of firefighters pensions is complete and has not identified any issues which we wish to bring to your attention.</p> <p>Our work in respect of payroll is still underway and will be completed during the course of the audit.</p>	<p>In relation to firefighters pensions, our work has not identified any material weaknesses which are likely to adversely impact on the Authority's financial statements.</p> <p>Our work in relation to payroll is currently underway and will be concluded during the course of the final accounts audit.</p>

Sector Update

Councils and Authorities are tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the 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 NHS 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 and Performance Review 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

Labour commits to installing sprinkler systems in all new schools

Labour says it would close a loophole in current legislation that allows a significant proportion of schools not to install sprinklers as figures show less than one in three have them fitted.

A Labour government would ensure all new schools have sprinkler systems in place as fresh figures show less than one in three schools built or refurbished by central government since 2010 have them installed.

Party officials told *The Independent* that, if elected, Labour would remove a “loophole” in the existing legislation, which they claim allows a significant proportion of schools not to fit sprinklers.

The announcement comes after new figures were disclosed by schools minister Nick Gibb in a response to a written parliamentary question in the Commons this month.

Mr Gibb said that since 2010, of the 260 schools commissioned by the Department for Education (DfE) under phase one of the Priority School Building Programme, 74 (28 per cent) have, or are planned to have, sprinkler systems.

It means the vast majority (72 per cent) of the schools on programme – aiming to rebuild and refurbish schools buildings in the worst conditions across the country – will not have sprinklers in place. The Government hoped that most of the schools would open by the end of 2017.

Sprinklers are currently mandatory in schools in Scotland and Wales, but not in England and Northern Ireland – despite a warning from fire chiefs last year that the Government risks “playing with children’s lives” and called for all new and refurbished schools to have them installed.

Earlier this month, unions also lashed out a decision to rebuild Selsey Academy in West Sussex without sprinklers after the building was almost completely destroyed by a fire in 2016. The Fire Brigades Union said it was “incomprehensible” and said the government was “shockingly cavalier” in its attitude towards fire safety.

Angela Rayner, the Shadow Education Secretary, told *The Independent* that a Labour government would provide £14bn that was needed to bring schools up to a “good standard”.

A DfE spokesperson said: “Schools have a range of fire protection measures and new schools undergo an additional check while being designed. Where sprinklers are deemed necessary to keep children safe, they must be installed.

“Since the Grenfell tragedy we have contacted all bodies responsible for safety in schools and instructed them to carry out checks to identify buildings that may require further investigation.

“We are working closely with the two schools where ACM classing of potential concern has been identified so that the necessary remedial action is taken.” The DfE added that all new school buildings must be signed off by an independent inspector to certify that they meet the requirements and designed to protect occupants and allow them to escape in the event of a fire.

Existing regulations contain the presumption that new schools should have sprinklers fitted except in cases where buildings are considered to be “low-risk”. Labour says it will alter this to ensure that new-builds must have systems installed.

Public Sector Audit Appointments – Report on the results of auditors’ work 2017/18

This is the fourth report published by Public Sector Audit Appointments (PSAA) and summarises the results of auditors’ work at 495 principal local government and police bodies for 2017/18. This will be the final report under the statutory functions from the Audit Commission Act 1998 that were delegated to PSAA on a transitional basis.

The report covers the timeliness and quality of financial reporting, auditors’ local value for money work, and the extent to which auditors used their statutory reporting powers.

For 2017/18, the statutory accounts publication deadline came forward by two months to 31 July 2018. This was challenging for bodies and auditors and it is encouraging that 431 (87 per cent) audited bodies received an audit opinion by the new deadline.

The most common reasons for delays in issuing the opinion on the 2017/18 accounts were:

- technical accounting/audit issues;
- various errors identified during the audit;
- insufficient availability of staff at the audited body to support the audit;
- problems with the quality of supporting working papers; and
- draft accounts submitted late for audit.

All the opinions issued to date in relation to bodies’ financial statements are unqualified, as was the case for the 2016/17 accounts. Auditors have made statutory recommendations to three bodies, compared to two such cases in respect of 2016/17, and issued an advisory notice to one body.

The number of qualified conclusions on value for money arrangements looks set to remain relatively constant. It currently stands at 7 per cent (32 councils, 1 fire and rescue authority, 1 police body and 2 other local government bodies) compared to 8 per cent for 2016/17, with a further 30 conclusions for 2017/18 still to be issued.

The most common reasons for auditors issuing qualified VFM conclusions for 2017/18 were:

- the impact of issues identified in the reports of statutory inspectorates, for example Ofsted;
- corporate governance issues;
- financial sustainability concerns; and
- procurement/contract management issues.

All the opinions issued to date in relation to bodies’ financial statements are unqualified, as was the case for the 2016/17 accounts.

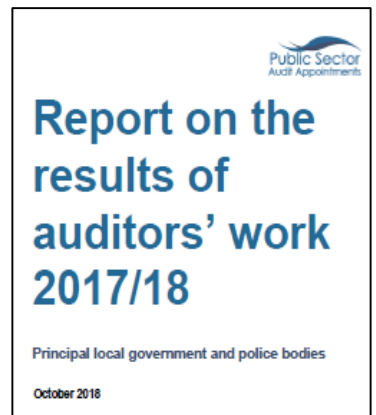
The report is available on the PSAA website:

<https://www.psa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>

PSAA Report

Challenge question:

Has your Authority identified improvements to be made to the 2018/19 financial statements audit and Value for Money Conclusion?



National Audit Office – Local auditor reporting in England 2018

The report describes the roles and responsibilities of local auditors and relevant national bodies in relation to the local audit framework and summarises the main findings reported by local auditors in 2017-18. It also considers how the quantity and nature of the issues reported have changed since the Comptroller & Auditor General (C&AG) took up his new responsibilities in 2015, and highlights differences between the local government and NHS sectors.

Given increasing financial and demand pressures on local bodies, they need strong arrangements to manage finances and secure value for money. External auditors have a key role in determining whether these arrangements are strong enough. The fact that only three of the bodies (5%) the NAO contacted in connection with this study were able to confirm that they had fully implemented their plans to address the weaknesses reported suggests that while auditors are increasingly raising red flags, some of these are met with inadequate or complacent responses.

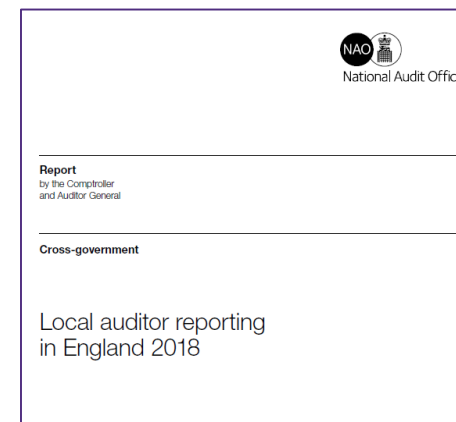
Qualified conclusions on arrangements to secure value for money locally are both unacceptably high and increasing. Auditors qualified their conclusions on arrangements to secure value for money at an increasing number of local public bodies: up from 170 (18%) in 2015-16 to 208 (22%) in 2017-18. As at 17 December 2018, auditors have yet to issue 20 conclusions on arrangements to secure value for money, so this number may increase further for 2017-18.

The proportion of local public bodies whose plans for keeping spending within budget are not fit-for-purpose, or who have significant weaknesses in their governance, is too high. This is a risk to public money and undermines confidence in how well local services are managed. Local bodies need to demonstrate to the wider public that they are managing their organisations effectively, and take local auditor reports seriously. Those charged with governance need to hold their executives to account for taking prompt and effective action. Local public bodies need to do more to strengthen their arrangements and improve their performance.

Local auditors need to exercise the full range of their additional reporting powers, where this is the most effective way of highlighting concerns, especially where they consider that local bodies are not taking sufficient action. Departments need to continue monitoring the level and nature of non-standard reporting, and formalise their processes where informal arrangements are in place. The current situation is serious, with trend lines pointing downwards.

The report is available on the NAO website:

<https://www.nao.org.uk/report/local-auditor-reporting-in-england-2018/>



NAO Report

Challenge question:

Has your Authority responded appropriately to any concerns or issues raised in the External Auditor's report for 2017/18?



ICAEW Report: expectations gap

The Institute of Chartered Accountants in England and Wales (ICAEW) has published a paper on the 'expectation gap' in the external audit of public bodies.

Context:

The expectation gap is the difference between what an auditor actually does, and what stakeholders and commentators think the auditors obligations might be and what they might do. Greater debate being whether greater education and communication between auditors and stakeholders should occur rather than substantial changes in role and remit of audit.

What's the problem?

• Short-term solvency vs. Longer-term value:

- LG & NHS: Facing financial pressures, oversight & governance pressures

• Limited usefulness of auditors reports:

'The VFM conclusion is helpful, but it is more about the system/arrangements in place rather than the actual effectiveness of value for money'

• Other powers and duties:

implementing public interest reports in addition to VFM

• Restricted role of questions and objections:

Misunderstanding over any objections/and or question should be resolved by the local public auditor. Lack of understanding that auditors have discretion in the use of their powers.

• Audit qualification not always acted on by those charged with governance:

'if independent public audit is to have the impact that it needs, it has to be taken seriously by those charged with governance'

• Audit committees not consistently effective:

Local government struggles to recruit external members for their audit committees, they do not always have the required competencies and independence.

• Decreased audit fees:

firms choose not to participate because considered that the margins were too tight to enable them to carry out a sufficient amount of work within the fee scales.

• Impact of audit independence rules:

new independence rules don't allow for external auditors to take on additional work that could compromise their external audit role

• Other stakeholders expectations not aligned with audit standards

- **Increased auditor liability:** an auditor considering reporting outside of the main audit engagement would need to bill their client separately and expect the client to pay.

Future financial viability of local public bodies

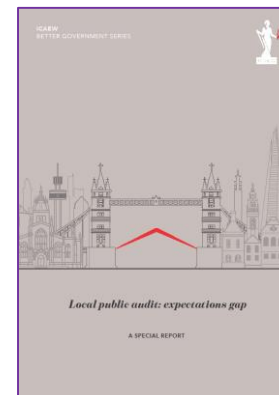
Local public bodies are being asked to deliver more with less and be more innovative and commercial. CFOs are, of course, nervous at taking risks in the current environment and therefore would like more involvement by their auditors. They want auditors to challenge their forward-looking plans and assumptions and comment on the financial resilience of the organisation..

The ICAEW puts forward two solutions:

Solution a) If CFO's want additional advisory work, rather than just the audit, they can separately hire consultants (either accountancy firms not providing the statutory audit or other business advisory organisations with the required competencies) to work alongside them in their financial resilience work and challenging budget assumptions.

Solution b) Wider profession (IFAC, IAASB, accountancy bodies) should consider whether audit, in its current form, is sustainable and fit for purpose. Stakeholders want greater assurance, through greater depth of testing, analysis and more detailed reporting of financial matters. It is perhaps, time to look at the wider scope of audit. For example, could there be more value in auditors providing assurance reports on key risk indicators which have a greater future-looking focus, albeit focused on historic data?

More information can be found in the link below (click on the cover page)



The expectations gap

Challenge question:

How effectively is the audit meeting client expectations?



Brexit Room - Increasing readiness and resilience within your locality

Public service organisations have always navigated uncertainty and faced challenges on behalf of communities and this role has never been more important than now. Whilst the outcome of Brexit remains uncertain at a national level, it is essential for organisations to set a path to ensure the continued delivery of vital services and the best possible outcomes for their local communities and economies. Whatever happens over the coming weeks and months, it is important that organisations identify key Brexit scenarios and use these to frame robust local contingency plans.

From our conversations with the sector we know that public service organisations are at different stages in their preparation for this big change.

Here's a brief summary of the issues that we are seeing:

Organisations

- Engaging non-EEA nationals within the workforce to ensure they understand their residency rights and are not receiving incorrect information from other sources
- Loss of access to key EU databases on policing and trading standards and changes to data sharing arrangements
- Uncertainty around continuation of EU funding beyond 2020 and the implementation of the UK Shared Prosperity Fund.

Services and suppliers

- Engaging with key suppliers to assess their risk profiles and resilience
- Dealing with the immediate strain on key services such as social care and trading standards
- Potential disruption to live procurement activities and uncertainty around the national procurement rulebook post OJEU.

Place

- Considering scenarios for economic shock, the associated social impact in the short, medium and long-term and the potential impact on public sector organisation financial resilience
- Potential impacts on major local employers, key infrastructure investment programmes and transport improvements
- Civil contingencies and providing reassurance and support to residents and businesses.

Our approach

The Brexit Room is a flexible and interactive half-day workshop designed to sharpen your thinking on the impact Brexit could have on:

Your organisation – including considerations on workforce, funding, and changes to legislation

Your services and suppliers – ensuring that critical services are protected and building resilience within supply chains

Your place – using our proprietary Place Analytics tools we will help you to understand potential impacts on your local communities and economy and develop a place-based response, working with partners where appropriate.

We can work with you to identify key risks and opportunities in each of these areas whilst building consensus on the priority actions to be taken forward. You will receive a concise and focused write-up of the discussion and action plan to help shape the next stages of your work on Brexit.

For more information, follow the link below:

<https://www.grantthornton.co.uk/insights/brexit-local-leadership-on-the-front-line/>

Brexit

Challenge question:

How well advanced are your Authority's plans for Brexit?



Links

Grant Thornton

<https://www.grantthornton.co.uk/>

<http://www.grantthornton.co.uk/industries/publicsector>

National Audit Office

<https://www.nao.org.uk/report/local-auditor-reporting-in-england-2018/>

Public Sector Audit Appointments

<https://www.psaa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>

