



AMY WEBB
**Director of Finance (and Treasurer to
Devon & Somerset Fire & Rescue
Authority)**

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Date : 10 May 2019
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Dear Barrie,

Devon and Somerset Fire and Rescue Authority
Financial Statements for the year ended 31 March 2019

I refer to your letter dated 29 January 2019 relating to your need, under International Auditing Standards, to better understand the management processes in place to prevent cases of fraud and corruption and compliance with laws and regulation, and provide as Appendix A my responses to the specific requests that you have made.

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

Summary of Evidence

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

Sources of Assurance

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

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

Yours sincerely,

Amy Webb
Director of Finance (and Treasurer to Devon & Somerset Fire & Rescue Authority)

Responses from Management:

Auditor question	Response
<p>What do you regard as the key events or issues that will have a significant impact on the financial statements for 2018/19?</p>	<p>Changes to the CIPFA code in regards to preparation of the year-end financial statements.</p> <p>Greater reliance on estimates arising from early close down as dictated by the Accounts and Audit regulations 2015.</p> <p>Basis of calculation for Provisions including doubtful debts.</p> <p>Changes to Pensions and Payroll providers in year have necessitated further reconciliation work to ensure that accurate information is included in the ledger.</p>
<p>Have you considered the appropriateness of the accounting policies adopted by the Authority? Have there been any events or transactions that may cause you to change or adopt new accounting policies?</p>	<p>Yes. No changes identified.</p>
<p>Are you aware of any changes to the Authority's regulatory environment that may have a significant impact on the Authority's financial statements?</p>	<p>No</p>
<p>How would you assess the quality of the Authority's internal control processes?</p>	<p>I would assess as good and fit for purpose and Internal Audit reports for 2018/19 have assessed Key Financial Systems controls as a "good standard". Recommendations to improve the control environment will be evaluated and actioned.</p>
<p>How would you assess the process for reviewing the effectiveness of internal control?</p>	<p>The Annual Assurance Report is drafted, incorporating outcomes from the annual audit plan, by the Risk and Assurance manager who then circulates to relevant stakeholders to feedback.</p> <p>Monitoring of issues of fraud and corruption identified.</p> <p>Reliance on outcomes from internal and external audit reports.</p> <p>Regular review of process effectiveness via team meetings and escalation of issues to departmental/corporate risk registers where appropriate.</p>
<p>How do the Authority's risk management processes link to financial reporting?</p>	<p>Representation on the Corporate Governance Group of members of Risk and Insurance Team and Finance.</p> <p>Where risks are identified which cannot be immediately mitigated these are monitored via departmental risk registers and internal/external audit function. A process exists to escalate any corporate risks to senior management and APRC.</p>

<p>How would you assess the Authority's arrangements for identifying and responding to the risk of fraud?</p>	<p>Annual review of Authority Governance Documents, including Strategy on the Prevention and Detection of fraud and corruption.</p> <p>Monitoring of issues of fraud and corruption identified through the work of the Insurance and Risk Team, membership of Anti-fraud networks including notifications provided by our Internal Auditors, participation in the National Fraud Initiative.</p> <p>Periodic review of Anti-Fraud and Corruption arrangements.</p> <p>Recognised process in place when notified of Supplier bank changes.</p> <p>Information Assurance and ICT security functions ensure internal communications are made available regarding phishing emails, of which there is an increasing frequency.</p>
<p>What has been the outcome of these arrangements so far this year?</p>	<p>No changes to existing documents or fraud identified.</p>
<p>What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>Payroll costs relating to On Call staff, approx. £12m per annum, includes some elements that are paid by claims on a pay-as-you-go basis.</p> <p>Without robust internal control arrangements this area of spend could be subject to abuse from fraud. Loss of Earnings claims by personnel is an area where previous cases of dishonest/fraudulent claims have been identified.</p> <p>The Authority is regularly targeted by bogus emails regarding cash transfers and change to supplier account details. Effective internal processes are in place to ensure that these are identified and challenged.</p>
<p>Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>The Monitoring Officer is aware of two whistleblowing matters. An external investigation is being undertaken which is expected to have completed by APRC in May.</p> <p>The second relates to alleged unauthorised use of Service equipment.</p>
<p>Have any reports been made under the Bribery Act?</p>	<p>No</p>
<p>As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>The Strategy on Prevention and Detection of Fraud and Corruption Document includes reporting arrangements for cases of suspected fraud, including reporting to Members of the Authority.</p> <p>Internal Audit reports to the Audit and Performance Review Committee will include any suspected fraud cases.</p> <p>A process exists to escalate any corporate risks to senior management and APRC.</p>

<p>As a management team, how do you communicate to staff and employees your views on business practices and ethical behaviour?</p>	<p>Whistle blowing policy and anti-fraud and corruption policy encourages staff to speak up, and identifies action to take in cases of suspected fraudulent activity.</p> <p>Publication of Core Values. There is an ongoing project to establish a new appraisal system which will further link the Core Values to performance.</p>
<p>What are your policies and procedures for identifying, assessing and accounting for litigation and claims?</p>	<p>Risk and Insurance Team headed by the Insurance and Risk Manager holds responsibility for assessing potential litigation and claims against the Service.</p> <p>Issues of a national nature are often identified and reported through the Fire Lawyers Network and the Fire Finance Network. As members of these groups, issues that may impact on the Authority are identified and reported.</p>
<p>Is there any use of financial instruments, including derivatives?</p>	<p>None other than the routine instruments such as debtors and creditors as disclosed in the Financial Statements.</p>
<p>Are you aware of any significant transaction outside the normal course of business?</p>	<p>No</p>
<p>Are you aware of any changes in circumstances that would lead to impairment of non-current assets?</p>	<p>No</p>
<p>Are you aware of any guarantee contracts?</p>	<p>No</p>
<p>Are you aware of allegations of fraud, errors, or other irregularities during the period?</p>	<p>We have been contacted by the Police in regards to one potential case of fraud and are assisting with their enquiries. A further case of potential fraud has recently been identified as is in the process of being investigated.</p>
<p>Are you aware of any instances of non-compliance with laws or regulations or is the Authority on notice of any such possible instances of non-compliance?</p>	<p>As reported last year, there was an issue over taxation of injury on duty/ ill health retirement being subject to income tax which has now been resolved.</p>
<p>Have there been any examinations, investigations or inquiries by any licensing or authorising bodies or the tax and customs authorities?</p>	<p>HMRC has conducted an examination of Officer Vehicle policies, procedures and has confirmed compliance.</p>
<p>Are you aware of any transactions, events and conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement?</p>	<p>None other than those critical judgements included in the Financial Statements.</p>

<p>Where the financial statements include amounts based on significant estimates, how have the accounting estimates been made, what is the nature of the data used, and the degree of estimate uncertainty inherent in the estimate?</p>	<p>Amounts included in the Financial Statements as Provisions:</p> <p>Pension Liability – the estimated liability has been assessed on the basis of potential claims. This assessment is based upon a “likely scenario” but carries some element of risk that more claimants come forward than estimated.</p> <p>The use of estimates for operating expenditure and pension fund – Due to shortening timescales for production of the Financial Statements, greater reliance will be placed on the use of estimates particularly regarding pension funds for fire fighters and the local government schemes, where 11 months of data will be used to inform the actuarial report. Estimates have been reviewed for appropriateness at interim audit and agreed with the auditor and will be documented where used in the financial statements.</p>
<p>Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?</p>	<p>The insurance mutual that we are part of, FRIC, holds a reserve fund in the event of significant future losses.</p>
<p>Although the public sector interpretation of IAS1 means that the financial services should be prepared on a going concern basis, management are required to consider whether there are any material uncertainties that cast doubt on the Authority's ability to continue as a business. What is the process for undertaking a rigorous assessment of the going concern? Is the process carried out proportionate in nature and depth to the level of financial risk and complexity of the organisation and its operations? How will you ensure that all available information is considered when concluding the organisation is a going concern at the date the financial statements are approved?</p>	<p>Several pieces of work have been undertaken during the year which support analysis of the Authority's operation as a going concern.</p> <p>The Medium Term Financial Plan (MTFP) has forecast funding levels for the next five years to inform future planning and has been enhanced with scenarios.</p> <p>Reserves and Capital Strategies have been produced.</p> <p>The Safer Together change programme is developing a benefits realisation plan and operating model which can be flexed to various budget scenarios.</p> <p>No critical risks around the ability of the Service to continue to operate as a going concern in this period have been identified. We will ensure that the going concern review follows a well defined process to capture risks and that this is presented to those charged with governance.</p>

<p>What is the position on the prior year's reported internal control deficiencies i.e. the issues raised in the Audit Findings Report?</p>	<p>Evidence trail to support the approval of an exit package – The approval was formally resolved on 30 July 2018. Where required to evidence a decision, confidential minutes are produced for every Part 2 item of the Authority or its committees.</p>
<p>Other than in house solicitors, can you provide details of those solicitors utilised by the Authority during the year. Please indicate where they are working on open litigation or contingencies from prior years?</p>	<p>The Authority does not employ in-house solicitors but engages in-house solicitors employed by Plymouth City Council, Devon County Council and Cornwall Council, under the provisions of an inter-authority legal agreement. These provide advice and/or litigation support (as required) on a range of issues including employment law, fire safety enforcement action, property and constitutional law. Plymouth City Council is currently engaged on a number of Employment Tribunal cases.</p> <p>Foot Anstey Solicitors has been engaged to provide advice on commercial trading matters.</p>
<p>Can you provide details of other advisors consulted during the year and the issue on which they were consulted?</p>	<p>Quantuma – Assurance over Red One Business Plan</p>
<p>Have any of the Authority's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?</p>	<p>No</p>