

The Audit Findings for Devon and Somerset Fire and Rescue Authority

Year ended 31 March 2019

July 2019



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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 for the purpose of expressing our opinion on the financial statements. 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 control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Devon and Somerset Fire and Rescue Authority ('the Authority') and the preparation of the Authority's financial statements for the year ended 31 March 2019 for those charged with governance.

Financial Statements	<p>Under International Standards of Audit (UK) (ISAs) and 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:</p> <ul style="list-style-type: none">• give a true and fair view of the financial position of the Authority and its income and expenditure for the year; and• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.	<p>Our audit work was completed on site during June 2019. Our findings are summarised on pages 6 to 13. We have identified no adjustments to the financial statements that have resulted in an adjustment to the Authority's Comprehensive Income and Expenditure Statement. We have identified a £900k adjustment to the balance sheet which is included in further detail in Appendix C, where other audit adjustments are detailed. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.</p>
	<p>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements, subject to the following outstanding matters;</p> <ul style="list-style-type: none">• receipt and review of Pension Fund Auditor assurances;• receipt and review of the revised IAS19 report in relation to the Firefighters Pension Scheme;• receipt and review of the updated financial instruments note• receipt of management representation letter; and• receipt and review of the final version of the approved financial statements. <p>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited. Our anticipated audit report opinion will be unmodified.</p>
Value for Money arrangements	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').</p>	<p>We have completed our risk based review of the Authority's value for money arrangements. We have concluded that Devon and Somerset Fire and Rescue Authority has proper arrangements to secure economy, efficiency and effectiveness in its use of resources</p> <p>We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 14 to 17</p>
Statutory duties	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none">• report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and• to certify the closure of the audit.	<p>We have not exercised any of our additional statutory powers or duties</p> <p>We have completed the majority of work under the Code and expect to be able to certify the completion of the audits when we give our audit opinion but are unable to issue our completion certificate until we complete the work outlined above.</p>

Acknowledgements

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.

Summary

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, 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.

Audit approach

Our audit approach was based on a thorough understanding of the Authority's business and is risk based, and in particular included:

- an evaluation of the Authority's internal controls environment, including its IT systems and controls; and
- substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

We have not had to alter or change our audit plan, as communicated to you on 18 January 2019.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit and Performance Review Committee meeting on 19 July 2019, as detailed in Appendix E. The outstanding items include:

- receipt and review of Pension Fund Auditor assurances;
- receipt and review of the revised IAS19 report in relation to the Firefighters Pension Scheme
- receipt and review of the updated financial instruments note
- receipt of management representation letter; and
- receipt and review of the final version of the approved financial statements.

Materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality calculations remain the same as reported in our audit plan. We detail in the table below our determination of materiality for Devon and Somerset Fire and rescue Authority.

	Value for Authority	Qualitative factors considered
Materiality for the financial statements	£1.73m	<p>This equates to 2% of your 2018/19 gross expenditure for the year. This was determined as the appropriate benchmark for determining materiality. Our knowledge of the environment at Devon and Somerset Fire and Rescue Authority has led us to the conclusion that the risk of fraud is low, hence 2% is deemed an appropriate percentage to apply to the benchmark.</p> <p>This is consistent with that reported in our Audit Plan in January 2019.</p>
Performance materiality	£1.04m	<p>This equates to 60% of materiality. We have reduced performance materiality from the prior year in light of the new service provision arrangements relating to payroll and firefighters pensions.</p> <p>This is consistent with that reported in our Audit Plan in January 2019.</p>
Trivial matters	£87k	<p>ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.</p> <p>This is consistent with that reported in our Audit Plan in January 2019.</p>
Materiality for specific transactions and disclosures	£20k	<p>Senior Officers' Remuneration is a balance which require a lower materiality due to its sensitive nature.</p> <p>This is consistent with that reported in our Audit Plan in January 2019.</p>


Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
<p>1 The revenue cycle includes fraudulent transactions</p>	<p>Auditor commentary</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the 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 fire authorities, including Devon and Somerset Fire and Rescue Authority, mean that all forms of fraud are seen as unacceptable. <p>Therefore we do not consider this to be a significant risk for the Authority.</p> <p>There have been no changes to our assessment as reported in our Audit Plan.</p>
<p>2 Management override of controls</p>	<p>Auditor commentary</p> <p>We have performed the following work in respect of this risk:</p> <ul style="list-style-type: none"> • gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness; • obtained a full listing of journal entries and identified and subsequently tested any unusual journal entries for appropriateness; and • evaluated the rationale for any changes in accounting policies and any significant unusual transactions or estimates. <p>Our audit work has not identified any issues in respect of management override of controls.</p>





Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
<p>3 Valuation of Property, Plant and Equipment</p>	<p>Auditor commentary</p> <p>We have performed the following work in respect of this risk:</p> <ul style="list-style-type: none"> evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work; evaluated the competence, capabilities and objectivity of the valuation expert; written to the valuer to confirm the basis on which the valuations were carried out; challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding; and tested, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Authority's asset register. <p>We identified that all land and buildings are classified as specialist assets and have been valued using the depreciated replacement cost (DRC) method. A detailed review of estimation processes is included within the key judgement and estimates section on Page 8.</p> <p>Our audit work has not identified any issues in respect of valuation of land and buildings.</p>
<p>4 Valuation of pension fund net liability</p>	<p>Auditor commentary</p> <p>We have performed the following work in respect of this risk:</p> <ul style="list-style-type: none"> updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated the design of the associated controls; evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; maintained ongoing communication around the impact of the McCloud /Sergeant court judgement on the pension liabilities reported by the Authority to ensure that these are materially stated and in line with proper accounting practices; assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; and undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report. <p>Our audit work in this area is still ongoing as we await the revised IAS19 report in relation to Firefighters Pensions as a result of the McCloud / Sargeant judgment and the receipt and review of the Pension Fund auditor assurances.</p>

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Land and Buildings – Other - £101.217m	<p>Other land and buildings comprises £101.217m of specialised assets, namely fire stations which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision.</p> <p>The Authority has engaged Norfolk Property Services to complete the valuation of properties as at 31 March 2019. All of the assets were revalued during 2018/19. The valuation of properties valued by the valuer has resulted in a net increase of £2.437m. The Authority has moved away from the five year rolling programme of revaluations in order to ensure that all revalued assets falling under the same class are assessed at the same time.</p>	<ul style="list-style-type: none"> We reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work. We then considered the competence, expertise and objectivity of the valuer in their capacity as the management experts used. We reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding and challenged key assumptions where appropriate. We tested revaluations made during the year to ensure they are input correctly into the asset register and subsequently recorded in the financial statements. 	 Green

Assessment

-  We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
-  We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Net pension liability – £762.46m	<p>The Authority's total net pension liability at 31 March 2019 is £762.46m (PY £733.31m) comprising the Devon Pension Fund Local Government and the Firefighters unfunded defined benefit pension scheme obligations. The Authority uses Barnet Waddingham to provide actuarial valuations of the Authority's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £17.764m net actuarial loss during 2018/19.</p>	<ul style="list-style-type: none"> We identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We also assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. This included gaining assurances over the data provided to the actuary to ensure it was robust and consistent with our understanding. No issues were identified from our review of the controls in place. We also evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuations and gained an understanding of the basis on which the valuations were carried out. This included undertaking procedures to confirm the reasonableness of the actuarial assumptions made. We checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial reports and did not identify any inconsistencies. The Authority has considered the impact of GMP equalisation on the net pension liability. They also commissioned the actuary to undertake a materiality assessment with respect to the McCloud/Sargeant judgment in relation to the Local Government Pension Scheme. They have assessed the overall impact of these matters as being below performance materiality. We have reviewed the assumptions and factors used by the actuary and management in undertaking this assessment and have found them to be reasonable. 	<p style="text-align: center;">● Green</p>
<p>Our audit work in this area is still ongoing as we await the receipt of the revised IAS19 report in relation to Firefighters Pensions and the receipt and review of the Pension Fund auditor assurances.</p>			

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings - other issues

Issue	Commentary	Auditor view
<p>Potential impact of the McCloud judgement</p> <p>The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to some scheme members.</p> <p>The Government applied to the Supreme Court for permission to appeal this ruling, but this permission to appeal was unsuccessful. The case will now be remitted back to employment tribunal for remedy.</p> <p>The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for pension funds, but also for other pension schemes where they have implemented transitional arrangements on changing benefits.</p>	<p>Discussion is ongoing in the sector regarding the potential impact of the ruling on the financial statements of Local Government bodies.</p> <p>Devon and Somerset Fire and Rescue Authority were proactive in raising this issue at a very early stage with us as external auditors, constructively contributing their views and that of the sector and the issues emerged and evolved.</p> <p>Following these communications, the Authority requested an estimate from the Government Actuary's (GAD) of the potential impact on fire and rescue authorities and this indicated a possible increase in pension liabilities of 4.1% to 5% of scheme liabilities. As this indicates a material difference to the amount currently recorded in the financial statements, the Authority has commissioned a further assessment from their actuary to re-calculate the IAS19 figures for the financial statements. The Authority is currently awaiting this report.</p> <p>The Authority also commissioned the actuary to undertake a materiality assessment with respect to the McCloud/Sargeant judgment in relation to the Local Government Pension Scheme. They have assessed the overall impact of this combined with the impact of GMP equalisation as being below performance materiality. We have reviewed the assumptions and factors used by the actuary and management in undertaking this assessment and have found them to be reasonable.</p>	<p>Our audit work in this area is still ongoing as we await the receipt of the revised IAS19 report in relation to Firefighters Pensions</p>

Going concern

Our responsibility

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) 570).

Going concern commentary

Management's assessment process

The Authority has a Medium Term Financial Plan (MTFP) that runs to 2023/24. The Authority also has an Integrated Risk Management Plan setting out priorities and plans to 2022.

The CIPFA Code confirms that entities should prepare their financial statements on a Going Concern basis unless the services provided are to cease. There is no indication from Government that the services provided by the Fire and Rescue Authority will cease.

Auditor commentary

- Management have determined that there is no evidence of an intention to cease the provision of services, and have therefore adopted the going concern assumption. We have not identified any issues through our review and enquiries that suggest that this is not appropriate.
 - Management have prepared a paper which contains a review of the financial position as at 31 March 2019 alongside an assessment of the ability of the Authority to continue operating for the foreseeable future. We have reviewed this paper, and the assumptions included within it.
 - We are satisfied that the going concern assumption is appropriate for the Authority's financial statements and is in line with accounting standards and the CIPFA Code.
-

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 other 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"> We are not aware of any related parties or 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, which is included in the Audit and Performance Review Committee papers.
⑤ Confirmation requests from third parties	<ul style="list-style-type: none"> We 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. We requested from management permission to send confirmation requests to the pension fund auditor. This permission was granted and the requests were sent. We have not yet received the final response from the pension fund auditor and will require this prior to issuing our opinion.
⑥ Disclosures	<ul style="list-style-type: none"> Our review identified a number of disclosure changes within the draft financial statements. See pages 21 and 22 for further details.
⑦ Audit evidence and explanations/significant difficulties	<ul style="list-style-type: none"> All information and explanations requested from management were provided. 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.

Other responsibilities under the Code

Issue	Commentary
① Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified.</p>
② Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit. • If we have applied any of our statutory powers or duties. <p>We have nothing to report on these matters.</p>
③ Specified procedures for Whole of Government Accounts	<p>We are 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.</p> <p>Note that work is not required as the Authority does not exceed the threshold.</p>
④ Certification of the closure of the audit	<p>We intend to certify the closure of the 2018/19 audit of Devon and Somerset Fire and Rescue Authority in the audit opinion, as detailed in Appendix E.</p>

Value for Money

Background to our VFM approach

We are required to satisfy ourselves that the Authority has made 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. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017.

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."

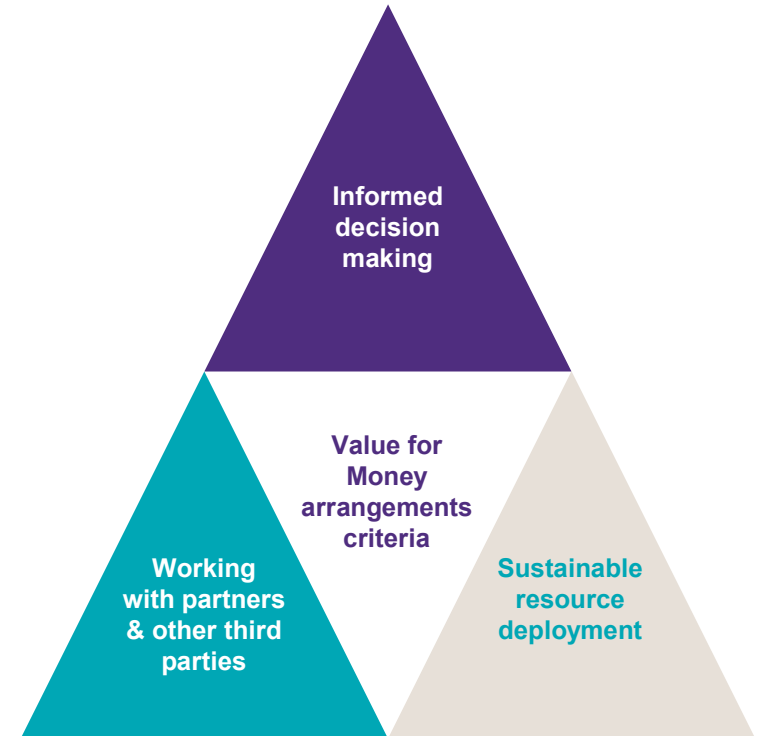
This is supported by three sub-criteria, as set out opposite:

Risk assessment

We carried out an initial risk assessment in December 2018 and January 2019 and identified two 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 18 January 2019

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.



Value for Money

Our work

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:

- Medium Term Financial Planning and the need to identify further savings in the medium term to balance the budget; and
- Red One and the need to improve governance arrangements as highlighted in a series of external reports.

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 pages 16 to 17

Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Authority had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendations for improvement.

Our recommendations and management's response to these can be found in the Action Plan at Appendix A

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.

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	Findings	Conclusion
<p>1 Medium Term Financial Planning</p> <p>We reported in our audit plan that the Authority continues to face financial pressures with the 4 year settlement for 2016/17 to 2019/20 resulting in a 25% grant cut. The Authority has set a balanced budget for the 2019/20 financial year, with a Council Tax increase of 2.99% being agreed. The balanced budget position was achieved by reducing the revenue contribution to capital expenditure by £183k. The budget report also highlights that savings of between £8.4m and £14.5m will need to be made by 2023/24 depending on the level of future Council Tax increases.</p>	<ul style="list-style-type: none"> We reviewed the Authority's Medium Term Financial Plan, including the assumptions and savings included within the modelling. We also considered the work being done by the Authority to identify the additional savings that it needs to make over this period. The Authority's outturn for 2018/19 was £1.89m below budget, which was transferred to earmarked reserves. At 31 March 2019 the Authority has reserves of £38.87m, with £33.56m being in earmarked reserves and £5.3m in the general reserve. The Authority set a balanced budget for the 2019/20 financial year, with a Council Tax increase of 2.99% being agreed. Budgeted savings within this were £2.38m, consisting of £117k from authority pensions, £685k from budget management savings, which includes reduction of non-operational budget heads (£487k of this is recurring savings), £1.09m from service delivery re-structure, as a result of reviewing the number and role types of Station Managers across the service, £480k from holding vacancies whilst the Safer Together plan is established and reducing the revenue contribution to capital expenditure by £183k. The current MTFP runs to 2023/24 with the savings requirement over that period being between £8.4m and £14.5m depending on the level of future council tax increases. 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, including the four year funding settlement accepted by the Authority. These assumptions have been reviewed and appear to be reasonable based on the evidence and information currently available. The MTFP is updated regularly as information on grant settlements become available, outcomes from the savings strategy are identified and any new cost pressures identified. 	<p>Auditor view</p> <p>The Authority's MTFP has a gap of up to £14.5m over the 2019/20- 2023/24 period. This represents a considerable challenge for the Authority given the savings it has already had to make in recent years. The Authority recognises that it must develop realistic savings plans to bridge the budget gap and there is evidence that such plans are being developed and implemented through the Sager Together Programme.</p> <p>On that basis, we have concluded that the risk was sufficiently mitigated and the Authority has proper arrangements in place for planning finances effectively to support the sustainable delivery of strategic priorities and using appropriate cost and performance information to support informed decision making.</p>

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	Findings	Conclusion
<p>2 Red One</p> <p>We reported in our audit plan that in 2016/17 the Authority sought external advice in response to concerns over cross-charging between Authority and Red One Ltd, and governance arrangements generally. Reports were received as a result that made a number of recommendations, although one report noted that many were similar to recommendations that had been made previously but not yet actioned. A further review of the governance arrangements at Red One has been carried out.</p>	<p>We reviewed the progress made by the Authority in response to the recommendations from the reports received in 2016/17, and the more recent review, to ensure that appropriate action has been taken to address the issues identified.</p> <p>The last reported update to members in June 2019 demonstrates that the recommendations made in relation to Red One's governance and financial arrangements have now been taken forward, and changes implemented. The report shows that recommendations were being tracked in an action plan, and that most of the recommendations were implemented in 2017 and 2018. There is one action in relation to compliance law training which is currently in progress, and all other recommendations are marked as complete. The Authority has now approved a revised governance framework for Red One and revised arrangements for the Non Executive Board of the company, including the introduction of independent Non Executive Directors.</p> <p>During the year, Devon and Somerset Fire and Rescue Authority commissioned an independent assessment of the validity of the Red One Business Plan for 2019-20. The recommendations from this report were assessed by officers, and used to aid the decision making process. The use of an external body to gain advice over the business plan produced by Red One, shows that Devon and Somerset Fire and Rescue Authority are taking appropriate measures to assess and obtain independent assurance over the financial information provided by Red One. The Authority's continued assessment of Red One's performance shows an appropriate level of scrutiny over the financial and governance arrangements.</p>	<p>Auditor view</p> <p>The Authority is making progress in implementing the recommendations in relation to Red One, with revised governance arrangements in place. The progress against the action plan and tracker shows that all except one of the recommendations have been implemented. Furthermore, an independent assessment of Red One has been undertaken in year, which shows an appropriate level of challenge and scrutiny over the financial and governance arrangements at the company.</p> <p>On that basis we are satisfied that the risk is being properly mitigated.</p>	

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 Financial Reporting Authority's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 (AGN01) issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority.

No non-audit services were identified.

Action plan

We have identified 2 recommendations for the Authority as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2019/20 audit. 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.

Assessment	Issue and risk	Recommendations
<p>1</p> <p>●</p> <p>Amber</p>	<p>During the 2018-19 year, the provision of payroll services was transferred from Devon County Council to Midland HR services. The Authority undertook parallel runs of payroll on both systems to highlight any variances in the data, in order that these could be investigated and resolved and to gain assurance over the completeness of data processing.</p> <p>Our audit enquiries over the output from these checks identified that the final version of the document, where the final variances were investigated and action taken to resolve them, could not be located. Consequently, the Authority as not able to demonstrate that this final check over the completeness of data processing has been satisfactorily concluded with any issues identified being resolved.</p> <p>In order to gain sufficient assurance over the completeness and accuracy of payroll data we have undertaken alternative procedures to ensure that the figures are not materially misstated. We are satisfied that the payroll information recorded in the financial statements are not materially mis-stated.</p>	<p>We recommend that the Authority document and retain all relevant checks and other information which demonstrates the procedures and assurance checks that they have undertaken to address key risks when changing in systems and ensuring the accuracy and completeness of data processing.</p> <p>Management response</p> <p>The file used to check the final parallel run has now been found and forward on to the audit team on 10/07/2019</p>
<p>2</p> <p>●</p> <p>Amber</p>	<p>The Authority's MTFP has a gap of up to £14.5m over the 2019/20 - 2023/24 period. This represents a considerable challenge for the Authority given the savings it has had to make in recent years. Furthermore given the McCloud decision, further assumptions may be required in the medium term financial planning model.</p>	<p>The Authority should continue to develop realistic savings plans to bridge the budget gap, with appropriate ongoing monitoring and review to ensure that planned savings are delivered in line with expectations, taking mitigating actions as necessary. The Authority should review and reflect any changes required as a result of relevant legal decisions within their medium term financial planning model.</p> <p>Management response</p> <p>The Safer Together Programme has developed plans to reform our Service to future proof the organisation and, to deliver budget savings. The initial focus is on the Service Delivery Operating Model, Digital Transformation, managing the Fleet & Equipment and People. We will also take account of the impact of the recent McCloud decision once the impact on Devon & Somerset FRS is understood.</p>

Key:

- High – Urgent action required to address significant control deficiency or weakness in arrangements
- Medium – Action required to improve control deficiency or improve management arrangements
- Low – Best practice

Follow up of prior year recommendations

We identified the following issues in the audit of Devon and Somerset Fire and Rescue Authority's 2017/18 financial statements, which resulted in 3 recommendations being reported in our 2017/18 Audit Findings report. We have followed up on the implementation of our recommendations and note 1 is still to be completed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
① ✓	The Authority must retrospectively approve the decision of the General Purposes Committee in June 2017 to agree an exit package, at its meeting on 30 July 2018. This is due to the fact that formal minutes were not taken at the meeting of the General Purposes Committee in June 2017	The approval was formally resolved on 30 July 2018
② ✓	All Part 2 meetings should be formally minuted with sufficient detail recorded in order to allow transparency and accountability of decision making in line with the Authority's Corporate Governance Code.	Confidential minutes are produced for every Part 2 item of the Authority or its committees
③ ✓	The Authority's MTFP has a gap of up to £14.6m over the 2019/20 - 2021/22 period. This represents a considerable challenge for the Authority given the savings it has had to make in recent years. The Authority must develop realistic savings plans to bridge the budget gap.	The Authority recognises that it must develop realistic savings plans to bridge the budget gap and there is evidence that such plans are being developed and implemented.
④ ✓	The Authority must assure itself that the recommendations in relation to cross-charging and governance arrangements at Red One Ltd have been appropriately implemented. This recommendation was raised in 2016-17	The action plan and tracker in relation to Red One recommendations were viewed, there was only one item on this tracker which was outstanding, and this is currently being progressed
⑤ X	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. This recommendation was first raised in 2016-17	The Authority is finalising requirements at present and hope to reach the procurement stage soon. The Authority is aiming to put procedures in place in the 2019-20 financial year

Assessment

- ✓ Action completed
- X Not yet addressed

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000
1 In the original version of the draft Statement of Accounts, the net assets employed did not equal the total reserves in the balance sheet. The Balance Sheet and Note 19 Reserves were amended to reflect the correct position	Nil	Dr General Fund – Usable reserves £900	Nil
Overall impact	£0	£900	£0

Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2018/19 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	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
1 Impact of the McCloud/Sargeant judgment – The Authority has commissioned their actuary to undertake a materiality assessment in relation to their Local Government Pension Scheme as a result of the McCloud/Sargeant Judgment. The impact of this would be a £963k understatement of the net pension liability	Nil	Cr Net pension liability £963	Nil	When considered along with the adjustment below, the total impact on the net pension liability is below performance materiality
2 Impact of GMP Equalisation judgment – The Authority has considered the impact of the GMP Equalisation judgment on the net pension liability. After discussion with the actuary, the Authority has identified that the net pension liability is overstated by £1.448m.	Nil	Dr Net pension liability £1,448	Nil	When considered along with the adjustment above, the total impact on the net pension liability is below performance materiality
Overall impact	£0	£485	£0	

Audit Adjustments

Misclassification 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.

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Expenditure and Funding Analysis	The EFA was not clearly reconciled back to the outturn position in the narrative report as required by IFRS 8.	Amend the Expenditure and Funding Analysis, as well as the Note to the Expenditure and Funding Analysis to agree to the outturn position reported in the narrative statement	✓
Note 27 PFI	The disclosure note had not been updated with 2018-19 figures. The 2017-18 figures have been rolled forward in error.	Update and amend Note 27 to correctly reflect the PFI related balances and transactions in 2018-19	✓
Note 13.4 Other Non Cash movement	Note 13.4 disclosed non-cash movements of £497k, however the Cash Flow Statement disclosed this as £588k	Update Note 13.4 to reconcile to the Cash Flow Statement in order to ensure internal consistency of the Cash flow statement	✓
Note 12.4 Financial Instruments	PFI Short term liability £1,111k and long term £98k had been omitted from the Note. This also impacts Notes 12.6	Update Note 12.4 to include the amounts in relation to the PFI lease liability	✓
Note 12.6 Financial Instruments	The original total of financial assets within this note was £47.773m, however this included some duplication of investments, and incorrectly excluded debtors. The correct total is £46.052m. Disclosure change of £1.721m.	Update Note 12.6 to rectify the issues highlighted in relation to the financial assets disclosure	✓
General Disclosures	Other general amendments	Other amendments including spelling, grammar and syntax and other minor disclosures which have not been separately disclosed should be adjusted and included	✓

Audit Fees

We confirm below our final proposed fees charged for the audit.

Audit Fees

Our audit approach, including the risk assessment, continues as the year progresses and fees are reviewed and updated as necessary as our work progresses.

Update to our risk assessment – additional work in respect of the audit code

The table below sets out the additional work which we have undertaken to complete the audit, along with the impact on the audit fee where possible. Please note that these proposed fees are estimates based on our best projection of work and will be subject to approval by PSAA in line with the Terms of Appointment.

Additional Audit Fees

Area of work	Timing	Comment	£
Assessing the impact of the McCloud ruling	June-July 2019	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we considered the impact on the financial statements along with any audit reporting requirements. This included consultation with our own internal actuary in their capacity as an auditor expert.	1,500

	Actual 2017/18 fee £	Proposed 2018/19 fee £	Final 2018/19 fee £
Financial Statement Audit fee	33,820	26,041	26,041
Additional Audit Fees (see above)			1,500
Total audit fees (excluding VAT)	£33,820	£26,041	£27,541

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Devon and Somerset Fire and Rescue Authority (the 'Authority') for the year ended 31 March 2019 which comprise the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, Statement of Movement in Reserves Statement and notes to the financial statements, including a summary of significant accounting policies and include the Pension Fund financial statements comprising the Firefighter Pension Fund and the Net Assets Statement. 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 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2019 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:
the Treasurer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
the Treasurer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Treasurer is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Report, the Annual Statement of Assurance, other than the financial statements, and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Audit opinion

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, the Narrative Report, the Annual Statement of Assurance for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if: we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or, we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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

Responsibilities of the Authority, the Treasurer and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities for the Accounts set out on page 8, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Treasurer. 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 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Treasurer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Treasurer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit and Performance Review Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at:

www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Audit opinion

Report on other legal and regulatory requirements - Conclusion on the Authority's 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 criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Responsibilities of the Authority

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.

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

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 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.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects 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 criterion 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 2019.

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 be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Certificate

We certify that we have completed the audit of the financial statements of the Devon and Somerset Fire and Rescue Authority in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 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.

[Signature]

Barrie Morris, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor
Bristol

[Date]



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