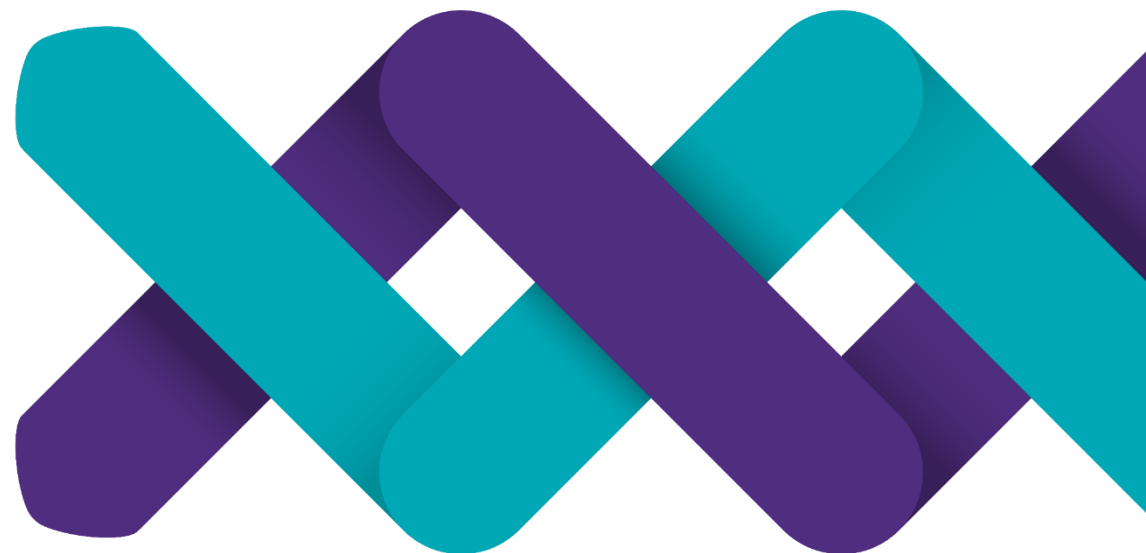


Audit Progress Report and Sector Update

Devon and Somerset Fire and Rescue Authority
Year ending 31 March 2021

22 February 2021



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Introduction



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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 and rescue service; 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 February 2021

Working with You

Meetings

We will continue discussions with management regarding emerging developments and to ensure the audit process is smooth and effective. This includes the new approach to VFM, and the timing of audit deliverables.

Working Arrangements

With the return to lockdown we envisage having to continue to work completely remotely for a longer period. Working with the Authority, we managed this well at the last audit and we will seek to be in regular contact with your finance team in respect of the logistics of these arrangements, recognising that staff, and service provision will be your priorities.

Our interim audit is planned for March and April 2021. We will be discussing this with the finance team to ensure we maximise the use of this time and ensure limited impact on your staff at this busy time.

Change of Engagement Team

It was agreed that as part of an internal review of portfolios, that Andrew Davies will be taking on responsibility as your Engagement Manager and replacing Aditi Chandramouli. Barrie Morris will remain your Engagement Lead and Oscar Edwards will also remain in place as the Engagement In-charge.

2020/21

We have completed our initial audit planning for both the financial statements audit and our VFM work.

Our Audit Plan setting out the risks identified is on this agenda.

This early planning will be supplemented by our interim audit which is due to take place in March and April 2021.

This work will be focused on:

- Review of the Authority's control environment;
- Updating our understanding of the Authority's financial systems and business processes;
- Review of Internal Audit reports on core financial systems and other key areas;
- Early work on any emerging accounting issues;
- Early substantive testing in significant risk areas.

Due to Committee reporting dates we will not have the opportunity to formally report these findings and they will therefore be included in our Audit Findings Report. In the event that there are significant findings that impact on our planned audit approach we will communicate these outside of the formal Committee timelines.

Events

Our annual accounts workshop for Chief Accountants is taking place in February 2021 and your finance team have received invites. These will be taking place remotely due to the current homeworking requirements and will cover topical issues and technical areas pertinent to the 2020/21 statutory accounts.

Value for Money

As communicated in the sector update section, on 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The most significant change in the Code is the introduction of a new 'Auditor's Annual Report', which brings together the results of all the auditor's work across the year. The Code also introduced a revised approach to the audit of Value for Money. These changes are set out in more detail in the NAO's Auditor Guidance Note 03 which was published on 15 October 2020.

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering governance, financial sustainability and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary (qualified /unqualified) approach to VfM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

We have completed our initial planning in this area and the findings are set out in our Audit Plan on this Committee agenda.

Our detailed work will take place alongside our financial statements audit.

Audit Deliverables

2020/21 Deliverables	Planned Date	Status
<p>Fee Letter Confirming audit fee for 2020/21.</p>	April 2021	Not yet due
<p>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 2020-21 financial statements. This also includes the findings of our value for money initial risk assessment.</p>	March 2021	On this agenda
<p>Interim Audit Findings Our interim audit is planned for March and April 2021. Where possible we will report to you the findings from our interim audit in our Audit Progress Report. Where committee reporting dates do not allow this, these findings will form part of our overall Audit Findings Report. In the event that there are significant findings that impact on our planned audit approach we will communicate these outside of the formal Committee timelines.</p>	April 2021	Not yet due
<p>Audit Findings Report The Audit Findings Report will be reported to the Audit and Performance Review Committee.</p>	TBC	Not yet due
<p>Auditors Report This is the opinion on your financial statements and annual governance statement.</p>	TBC	Not yet due
<p>Auditor's Annual Report Under the new Code of Audit Practice this replaces the Annual Audit Letter and is the key output from local audit work on arrangements to secure VFM.</p>	TBC	Not due yet

Sector Update

Councils continue to try 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 local government sector 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 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

The Redmond Review

The Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting – “The Redmond Review” was published on 8 September.

The review has examined the effectiveness of local audit and its ability to demonstrate accountability for audit performance to the public. It also considered whether the current means of reporting the Authority’s annual accounts enables the public to understand this financial information and receive the appropriate assurance that the finances of the authority are sound.

The Review received 156 responses to the Calls for Views and carried out more than 100 interviews. The Review notes “A regular occurrence in the responses to the calls for views suggests that the current fee structure does not enable auditors to fulfil the role in an entirely satisfactory way. To address this concern an increase in fees must be a consideration. With 40% of audits failing to meet the required deadline for report in 2018/19, this signals a serious weakness in the ability of auditors to comply with their contractual obligations. The current deadline should be reviewed. A revised date of 30 September gathered considerable support amongst respondents who expressed concern about this current problem. This only in part addresses the quality problem. The underlying feature of the existing framework is the absence of a body to coordinate all stages of the audit process.”

Key recommendations in the report include:

- A new regulator - the Office of Local Audit and Regulation (OLAR) to replace the Financial Reporting Council’s (FRC) role and that of Public Sector Auditor Appointments (PSAA)
- Scope to revise fees - the current fee structure for local audit be revised to ensure that adequate resources are deployed to meet the full extent of local audit requirements
- Move back to a September deadline for Local Authorities - the deadline for publishing audited local authority accounts be revisited with a view to extending it to 30 September from 31 July each year
- Accounts simplification - CIPFA/LASAAC be required to review the statutory accounts to determine whether there is scope to simplify the presentation of local authority accounts.

The OLAR would manage, oversee and regulate local audit with the following key responsibilities:

- procurement of local audit contracts;
- producing annual reports summarising the state of local audit;
- management of local audit contracts;
- monitoring and review of local audit performance;
- determining the code of local audit practice; and
- regulating the local audit sector.

The current roles and responsibilities relating to local audit discharged by the Public Sector Audit Appointments (PSAA); Institute of Chartered Accountants in England and Wales (ICAEW); FRC; and The Comptroller and Auditor General (C&AG) to be transferred to the OLAR.

How you can respond to the Review

One of the recommendations was for local authorities to implement:

The governance arrangements within local authorities be reviewed by local councils with the purpose of:

- an annual report being submitted to Full Council by the external auditor;
- consideration being given to the appointment of at least one independent member, suitably qualified, to the Audit Committee; and
- formalising the facility for the CEO, Monitoring Officer and Chief Financial Officer (CFO) to meet with the Key Audit Partner at least annually.

Whilst Redmond requires legislation, in practice the second and third bullets are things which authorities could start doing now.

The full report can be obtained from the gov.uk website:

<https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-independent-review>

Code of Audit Practice and revised approach to Value for Money audit work - National Audit Office

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The most significant change in the Code is the introduction of a new 'Auditor's Annual Report', which brings together the results of all the auditor's work across the year. The Code also introduced a revised approach to the audit of Value for Money.

Value for Money - Key changes

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering governance, financial sustainability and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary (qualified / unqualified) approach to VfM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The new approach to VfM re-focuses the work of local auditors to:

- Promote more timely reporting of significant issues to local bodies
- Provide more meaningful and more accessible annual reporting on VfM arrangements issues in key areas
- Provide a sharper focus on reporting in the key areas of financial sustainability, governance, and improving economy, efficiency and effectiveness
- Provide clearer recommendations to help local bodies improve their arrangements.

Implications of the changes

Grant Thornton very much welcomes the changes, which will support auditors in undertaking and reporting on work which is more meaningful, and makes impact with audited bodies and the public. We agree with the move away from a binary conclusion, and with the replacement of the Annual Audit Letter with the new Annual Auditor's Report. The changes will help pave the way for a new relationship between auditors and audited bodies which is based around constructive challenge and a drive for improvement.

The following are the main implications in terms of audit delivery:

- The Auditor's Annual Report will need to be published at the same time as the Auditor's Report on the Financial Statements.
- Where auditors identify weaknesses in Value for Money arrangements, there will be increased reporting requirements on the audit team. We envisage that across the country, auditors will be identifying more significant weaknesses and consequently making an increased number of recommendations (in place of what was a qualified Value for Money conclusion). We will be working closely with the NAO and the other audit firms to ensure consistency of application of the new guidance.
- The new approach will also potentially be more challenging, as well as rewarding, for audited bodies involving discussions at a wider and more strategic level. Both the reporting, and the planning and risk assessment which underpins it, will require more audit time, delivered through a richer skill mix than in previous years.

The Code can be accessed here:

https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2020/01/Code_of_audit_practice_2020.pdf

