Grant Thornton

The Audit Findings for Devon and Somerset Fire and Rescue Authority

Year ended 31 March 2021

July 2021

Contents

Your key Grant Thornton team members are:

Barrie Morris
Key Audit Partner
T 0117 305 7708
E barrie.morris@uk.gt.com

Andrew Davies
Engagement Manager
T 0117 305 7844
E andrew.davies@uk.gt.com

Oscar Edwards
Engagement In-charge
T 0292 034 7607
E oscar.r.edwards@uk.gt.com

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Authority or all weaknesses in your internal controls. 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.

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Devon and Somerset Fire and Rescue Authority and the preparation of the Authority's financial statements for the year ended 31 March 2021 for those charged with governance.

Financial Statements

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 give a true and fair view of the financial position of the Authority and 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.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was completed remotely during June and July 2021. Our findings are summarised on pages 5 to 18. We have identified two adjustments, totalling £0.24m, that increases the surplus reported within the financial statements. This has resulted in an adjustment to the Authority's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix B. We have also raised recommendations for management as a result of our audit work in Appendix A.

Our work is substantially complete and at the time of writing this report 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:

- Completion of our work on:
  - journals testing;
  - PPE valuations;
  - pension's liability;
  - payables and receivables;
  - PFI liability;
  - fees and charges, grant income and income completeness;
  - expenditure completeness;
  - employee benefits and remuneration disclosures;
  - financial instruments;
  - capital disclosures; and
  - overall disclosure checklist
- Final review by the Manager and Engagement Lead on outstanding work;
- Receipt of management representation letter; and
- Review of the final set of financial statements.

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.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Authority's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Authority's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in Appendix D to this report. We expect to issue our Auditor's Annual Report by September 2021. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified a risk in respect of financial sustainability. We have performed further procedures in respect of this risk and have completed this element of our VFM work.

Our findings are set out in the value for money arrangements section of this report.

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- 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.

We have not exercised any of our additional statutory powers or duties.

We have completed the majority of work under the Code and we expect to certify the completion of the audit upon the completion of our work on the Authority's VFM arrangements, which will be reported in our Auditor's Annual Report.

Significant Matters

We did not encounter any significant difficulties or identify any significant matters arising during our audit.

2. Financial Statements

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.

Other than changing our materiality level, as reported on the next page, we have not had to alter our audit plan, as communicated to you on 18 February 2021.

Conclusion

We have substantially completed our audit of your financial statements and, subject to the satisfactory resolution of the outstanding queries identified on page 3 and the receipt of the letter of assurance from the Pension Fund Auditor, we anticipate issuing an unqualified audit opinion once the financial statements have been approved.

Acknowledgements

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

2. Financial Statements

Our approach to 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.

We have revised materiality, performance materiality and our level of triviality due to the actual gross expenditure being lower than the level that we expected and used at the planning stage.

We detail in the table our determination of materiality for Devon and Somerset Fire and Rescue Authority.

	Planning	Final
Materiality for the financial statements	1,850,000	1,750,000
Performance materiality	1,390,000	1,300,000
Trivial matters	92,500	85,000
Materiality for Senior Officers Remuneration	20,000	20,000

2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	As part of our work we: • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determine the criteria for selecting high risk unusual journals; • gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. At the time of writing this report we are in the process of: • testing high value and unusual journals processed during the year and at the accounts production stage for appropriateness and corroboration. Our work to date has not identified any issues in respect of management override of controls. We have however identified a number of weaknesses in controls that the Authority should take action on: • There is no formal approval process for posting journals, therefore the finance team members who have access to post journals are effectively approving their own journal transactions. To mitigate the risk that this creates, the Head of Finance and Senior Accountant undertake a review of a sample of journal entries posted, twice a year. However, as this control is undertaken retrospectively and on a sample basis, it is not a preventative control and may not identify any inappropriate transactions not selected in their sample. As such, there remains a residual risk that inappropriate journals may be processed. Our risk based audit work on journals has not identified any instances where inappropriate journals have been processed. • There is no authorisation limit on posting journals, therefore journal users are not restricted by the value of transactions that they post. We therefore recommend that a process which incorporates specific authorisation limits for those individuals that process journals should be implemented. • We also noted a number of journals that appear to have been posted by the Head of Finance. We consider that this is unusual and therefore tested all of these journals and identified that these journals were not, in fact, posted by the Head of Finance but they were recorded as such due to a ‘system bug’. We recommend that the Integra finance system be updated to remove this bug.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Improper revenue recognition Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. 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: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Devon and Somerset Fire and Rescue Authority mean that all forms of fraud are seen as unacceptable.	In our Audit Plan we set out that 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: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Devon and Somerset Fire and Rescue Authority mean that all forms of fraud are seen as unacceptable. We re-considered this assessment on receipt of the draft financial statement and have not identified any reasons to change this assessment.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	**Commentary**
Valuation of land and buildings The Authority revalues its land and buildings on an annual basis to ensure that the carrying value is not materially different from the current value at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£103m) and the sensitivity of this estimate to changes in key assumptions. Management have engaged the services of a valuer to estimate the current value as at 31 March 2021. The valuation of land and buildings is a key accounting estimate which is sensitive to changes in assumptions and market conditions. In 2019/20 the Authority's valuation expert identified there were material uncertainties in relation to the valuation of land and buildings at the balance sheet date. Due to the impact of Covid 19. These uncertainties are likely to impact valuations as at 31 March 2021. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.	As part of our work we: • 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; and • wrote to the valuer to confirm the basis on which the valuations were carried out. At the time of writing this report we are in the process of: • challenging the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the Authority's valuer's report, and the assumptions that underpin the valuation; • testing, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Authority's asset register; and • evaluating the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. Our work to date has not identified any significant issues in respect of the valuation of land and buildings. From review of the financial statements we have noted that the Authority have included a material uncertainty in note 4 of the financial statements in relation to property valuations due to Covid-19. This is in line with the information provided to the Authority by their valuer. We have reviewed this and, based on the information provided by the valuer, this appears reasonable. In line with the previous year we will include an emphasis of matter in our opinion to reflect this uncertainty. The emphasis of matter paragraph refers to this disclosure in the accounts and draws attention to it for the readers of the financial statements and reflects the increased uncertainty created by Covid-19.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of pension fund net liability The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. In 2019/20 the Authority disclosed a net pension fund liability of £729.884m. This comprised £35.970m in relation to the Local Government Pension Scheme (LGPS) and £693.914m in relation to the Fire Fighters Pension Scheme. In 2019/20 the Authority's disclosed a material uncertainty in relation to the property investment funds held within the Pension Fund Assets; due to the potential impact of Covid 19. These uncertainties are likely to impact valuations as at 31 March 2021. We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	As part of our work we: • 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 evaluate 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; • 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; • undertook 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; and • for LGPS obtained assurances from the auditor of Devon Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. At the time of writing this report our work in this area remains in progress. Our work to date has not identified any issues in respect of the valuation of the pension fund liability. We are also awaiting the letter of assurance from the Pension Fund auditor.

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £130m	Other land and buildings comprises £97.953m 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. The remainder of other land and buildings (£0.613m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. Other non Land and Building assets totalling £31.6m are valued at historic cost in line with the Code. The Authority has engaged Norfolk Property Services to complete the valuation of properties as at 31 March 2021. All assets were revalued in 2020/21. The total year end valuation of land and buildings was £98.566m, a net decrease of £4m from 2019/20 (£102.664m).	We have, or are in the process of performing the following: • assessed the competence of management's expert; • tested the completeness and accuracy of the underlying information used to determine the estimate; • considered the impact of any changes to valuation method; • reviewed the consistency of estimate against the Gerald Eve report; • reviewed the reasonableness of the decrease in estimate; and • reviewed the adequacy of disclosures of the estimate in the financial statements. At the time of writing this report we have not identified any material concerns from our review.	Light Purple

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Net pension liability – £883.190m	The Authority's total net pension liability at 31 March 2021 is £883mm (PY £728m), which includes both the Devon Pension Fund Local Government funded defined benefit scheme and the Firefighters unfunded defined benefit pension scheme obligations. The Authority uses Barnett 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 2019. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £149m net actuarial loss during 2020/21.	We have, or are in the process of, carrying out the following work in relation to this estimate: • assessed management's expert to ensure suitably qualified and independent, • assessed the actuary's roll forward approach taken, • used PwC as an auditors expert to assess the actuary and the assumptions made by actuary. The table below summarises where the assumptions used by the Authority falls in the acceptable ranges set by PwC:	Light Purple

Local Government Pension Scheme

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2%	1.95% - 2.05%	✓
Pension increase rate	2.85%	2.8% - 2.85%	✓
Salary growth	3.85%	1% above CPI (CPI being 2.85%)	✓
Life expectancy – Males currently aged 45 / 65	Male Current: 22.6 Male Future 24	Male current: 20.5 - 23.1 Male Future: 21.9 - 24.4	✓
Life expectancy – Females currently aged 45 / 65	Female Current: 23.9 Female Future: 25.4	Female current: 23.3 - 25 Female Future: 24.8 - 26.4	✓

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
		Fire Fighters Pension Scheme (see below)	Not yet assessed.

Fire Fighters Pension Scheme

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2%	1.95% - 2.05%	✓
Pension increase rate	2.85%	2.8% - 2.85%	✓
Salary growth	3.85%	1.5% - 2.2% above CPI (CPI is 2.85%)	X
Life expectancy – Males currently aged 45 / 65	Male Current: 20.5 Male Future: 21.7	Male current: 20.5 - 21.1 Male Future: 21.7 - 22.3	✓
Life expectancy – Females currently aged 45 / 65	Female Current: 22.7 Female Future: 24.2	Female current: 22.7 - 23.3 Female Future: 24.2 - 24.8	✓

- we have gained assurance over the completeness and accuracy of the underlying information used to determine the estimate,
- we have gained assurance over the reasonableness of the Council's share of LGPS pension assets, and
- we have reviewed the adequacy of disclosure of the estimate in the financial statements.

At the time of writing this report our work against this risk remains in progress. The table above shows that the actuarial growth on the firefighters pension scheme is outside of the PWC range. We have raised a query with the actuary on this and await their response.

Assessment

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

2. Financial Statements - 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
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit and Governance and 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.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	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.
Written representations	A letter of representation has been requested from the Authority, which is included in the Committee papers.
Confirmation requests from third parties	We requested from management permission to send balance confirmation requests in relation to the Authority's bank and investment balances. This permission was granted and the requests were sent, these requests were returned with positive confirmation, and no issues were noted.
Accounting practices	We have evaluated the appropriateness of the Authority's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided.

2. Financial Statements - other communication requirements

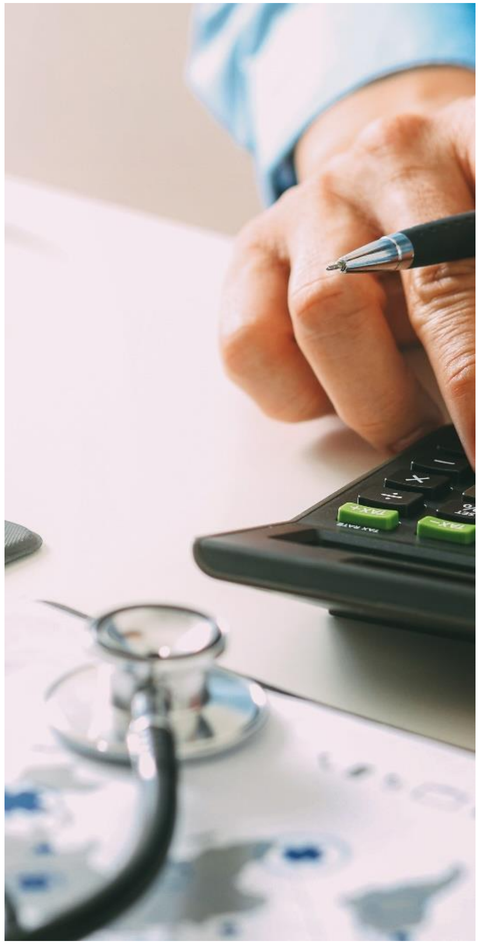
Our responsibility

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).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that, for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor’s time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity’s services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Authority's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Authority meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Authority and the environment in which it operates • the Authority's financial reporting framework • the Authority's system of internal control for identifying events or conditions relevant to going concern • management’s going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	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. No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported a significant weakness. We have nothing to report on these matters.
Specified procedures for Whole of Government Accounts	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. However, as the Authority does not exceed the threshold, we are not required to complete this work. We are still required to issue and assurance statement to the NAO.
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2020/21 audit of Devon and Somerset Fire and Rescue **Authority** in the audit report, due to our work on VFM and WGA being incomplete.



3. Value for Money arrangements

Revised approach to Value for Money work for 2020/21

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 Code introduced a revised approach to the audit of Value for Money. (VFM)

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

- A new set of key criteria, covering financial sustainability, governance 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.
- Auditors undertaking sufficient analysis on the Authority's VFM arrangements to arrive at far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

3. VFM - our procedures and conclusions

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix E to this report. We expect to issue our Auditor's Annual Report by September 2021. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified the risk set out in the table below. We have performed further procedures in respect of this risk and have completed this element of our VFM work. Our conclusions are detailed below.

Risk of significant weakness	Procedures undertaken	Conclusion and outcome
Financial Sustainability The Authority is forecasting an underspend of £1.2m for 2020/21 and a general fund balance of £5.317m; which remains unchanged from 31 March 2020. Earmarked reserves are forecast to reduce from £33.496 to £29.694m. Whilst the Authority has a healthy level of reserves and a strong history of delivering financial targets and savings (with £13.9m delivered to date), the financial challenge and uncertainty continue to increase. In setting the 2021/22 budget and Medium Financial Strategy for the next 5 years, the Authority has identified the need to make a further £7.2m in savings. Whilst the Authority appear to have adequate arrangements in place there is an increasing challenge in securing financial sustainability. Through the Integrated Risk Management Plan and the Safer Together programme the Authority are looking to align resources to risks in order to drive efficiencies. We will further review savings and financial plans and progress on the Safer Together Programme.	In response to this risk, and as part of our Financial Sustainability work, we have reviewed progress of the Safer Together programme and closing the £7.2m budget gap to 2024/25. Further to this we have: • discussed financial sustainability with senior management within the Authority; • reviewed the key assumptions that underpin the 2021/22 medium term financial plan; • reviewed in year financial reporting and the outturn position; and • reviewed the general arrangements underpinning financial management.	Our work to date has not identified a significant weakness in arrangements, or any implications for our opinion on the financial statements. From our work to date, we have identified two improvement recommendations. Our work has identified that the Authority has robust budget setting, monitoring and reporting arrangements in place, whereby budget holders are challenged on their budgetary requirement each year. This is facilitated through a number of challenge meetings. This ensures that base budgets are not just rolled forward, and that any unrequired budgets, based on prior year outturns and future demands are stripped out. In future years, the Authority aim to enhance this further by using activity-based costing to better understand what drives costs and also implement zero based budgeting. Our work has identified that despite the uncertainty regarding funding, the Authority has robust arrangements in place for delivering financial sustainability. This is based on a strong and proven track record that has led to savings totalling £13.9m being delivered for the 5 years to 2020/21.

3. VFM - our procedures and conclusions (continued)

Conclusion and outcome (continued)

The Authority has delivered an underspend of £2.33m in year, which is in excess of that forecast throughout the year. This has been largely achieved due to the receipt of additional COVID-19 funding and reduced costs in relation to travel.

The Authority’s draft financial statements report that the usable reserves have increased from £38.8m to £46.4m. Within the usable reserves there is a specific budget smoothing reserve of £1.8m. The closing balance on reserves will increase in the post audit statements by £0.24m as set out on page 3 of this report.

As part of the financial planning process the Authority undertook scenario planning when looking at key assumptions and therefore presented a range of options to members. These range from a worst case scenario, where council tax increases are frozen, to where council tax is raised in line with National guidance and the assumptions around expenditure do not materialise. The Authority have based the medium financial plan around a mid-point of the two which avoids the plan being either overly cautious or optimistic.

The key assumptions that drive costs over the medium term are:

- Pay increases;
- Inflation;
- Pension increases;
- Reduction to one off grant income; and
- Capital investment.

We have reviewed the assumptions used by the Authority and, based on the evidence available, these appear to be reasonable. For 2021/22 no pay increase was included based on national guidance. A 1.5% increase has been subsequently announced and adds a further £0.850m cost pressure to the budget gap set out in the Medium Term Financial Plan (MTFP) approved in February 2021.

The MTFP approved in February 2021 sets out a budget gap to 2024/25 of £7.2m. This could rise to £17.3m under the worst case scenario planning and £3.8m under the best case. The latest reporting to the Authority confirms that the current gap has increased to £8.4m from £7.2m, due in the main to the additional cost pressure set out above.

As the Authority has already delivered significant cumulative savings, the opportunities for delivering further meaningful savings becomes increasingly challenging. Under each scenario that challenge is therefore significant. At present progress has not started in identifying savings to close this £7.2m budget gap (although assumptions are prudent). We would therefore recommend that realistic and deliverable schemes are identified and implemented at the earliest opportunity to address this gap, as there is often a considerable lead time in achieving cashable savings.

3. VFM - our procedures and conclusions (continued)

Conclusion and outcome (continued)

The Safer Together programme aims to align spend to strategic risks. Progress to date includes closing two fire stations, and reducing capacity in others. These service reductions are aligned to service risk.

Based on the actions taken to date, it is clear that the Authority has developed adequate arrangements to take and implement decisions to deliver financial sustainability and are making progress around service transformation aligned to risk. This, aligned with the bottom up budgeting arrangements that are in place, will deliver savings. However at present the Authority do not separately identify and report progress against these individual savings programmes.

From our review we noted that the link between the MTFP (budget gap), budgeting process and the Safer Together programme could be made more explicit. For example, by identifying profiled savings schemes that reconcile to the identified budget gaps. This will:

- allow progress against each scheme to be more clearly monitored and reported;
- increase ownership of budget holders; and
- ensure that where service lines underspend the reason is understood and attributable to the schemes identified.

Like all public sector bodies the Authority faces a financial challenge over the medium term. However, we have not identified any risks of significant weaknesses in arrangements as part of our work on financial sustainability. The Authority have delivered an in year surplus and have significant useable reserves. The Authority have clearly identified the budget gap over the medium term and are due start progress to develop schemes to address this.

As part of our Auditor’s Annual Report we will be making the following improvement recommendations:

- the Authority should progress work at pace to identify schemes to address the future budget gap to prevent the unnecessary use of reserves; and
- the Authority clearly show the link between the MTFP budget gap and the schemes identified to close that gap through the Safer Together programme to increase the transparency of reporting and ensure accountability and ownership of schemes.

4. 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 Council'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

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Authority's Ethical Standard and we as a firm, and each covered person, confirm that we 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 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix C.

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 which were charged from the beginning of the financial year to the date of signing the audit opinion and we are not aware of any that are planned.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

Appendices

A. Action plan – Audit of Financial Statements

We have identified 3 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 2021/22 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
Medium	Our work on journals identified that there is no formal approval process for posting journals, therefore the finance team members who have access to post journals are effectively approving their own entry. The Head of Finance and Senior Accountant complete a review of a sample of journal entries posted twice a year, however this is done retrospectively and is not a preventative control.	We recommend that the Authority introduce preventative controls for the approval of journals. **Management response** We have previously attempted to address this issue by installing an authorisation process with limits attached i.e. the Senior Accountant could authorise up to £20K, and the Head of Finance could authorise up to £100K. Anything greater would have been approved by the Treasurer. This was unsuccessful as journals were being allocated for authorisation incorrectly. We will contact Capita to see where they are with rectification of this issue.
Medium	Our work on journals work noted that there is no authorisation limit on posting journals, therefore journal users are not restricted by the value they post.	We recommend implementing a structure/policy on authorisation limits. **Management response** See above.
Medium	Our work on journals noted that there were a number of journals that appear to have been posted by the Head of Finance. On following this up it was ascertained that this was not the case and was due to a systems bug.	We recommend that Integra be updated to remove this bug. **Management response** We have requested the latest software release which fixes the issue. This will be installed by 13th August 2021.

Key to recommendations

- ● High – Significant effect on financial statements or control deficiency that presents a significant risk
- ● Medium – Limited Effect on financial statements or a control deficiency that presents some risk
- ● Low – Best practice or a minor control deficiency that presents limited risk

B. 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 2021.

Detail	Comprehensive Income and Expenditure Statement £‘000	Statement of Financial Position £’ 000	Impact on total net expenditure £’000
The Audit Fee in the financial statements was discussed in note 23 as £48k. The fee for the 2020/21 audit was £41K. The Authority have adjusted this noted and adjusted the CIES.	(7)	7	(7)
Since the draft financial statements were submitted for audit the Authority have increased receivables by £232k. This is in relation to late amendments to NNDR returns from District Councils.	(232)	232	(232)
Overall impact	(239)	239	(239)

B. Audit Adjustments (adjusted)

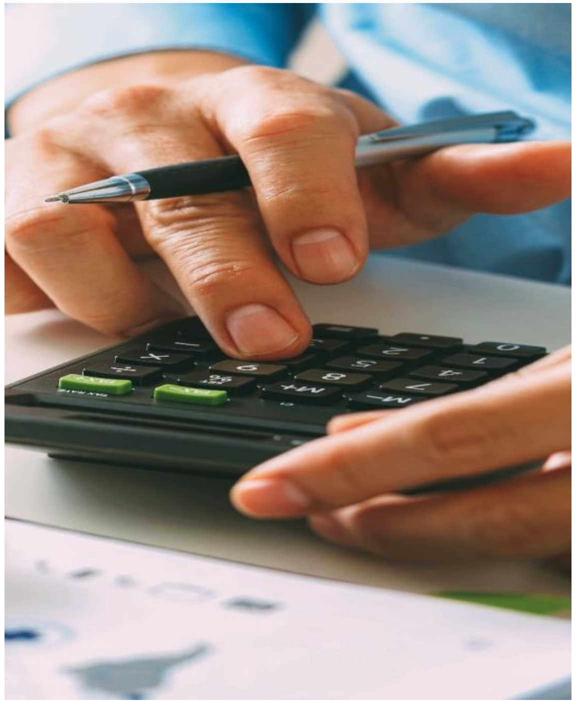
We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

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	Adjusted?
The Authority received a capital receipt of £0.379m which was disclosed under operating activities. The amount received should be disclosed under investing activities.	✓
On receipt of the draft financial statements it was noted that there was a small difference between the total usable reserves per the balance sheets and the movement in reserves statement.	✓
The critical judgement note did not include narrative assessing the group boundary and in particular the judgement to not consolidate RED 1.	✓
The movement in reserves statement included in the draft financial statements included reference to a prior period adjustment in error. This has been removed.	✓
Two events after the balance sheet date were disclosed. On review it was concluded that these were not such events and have been removed.	✓
Our work on investments identified that there were £1.5m of investments classified as short terms which on review were found to be long term. These have been classified as long term.	✓
On receipt of the draft financial statements it was noted that the EFA did not agree to the CIES. This has now been corrected.	✓
In pensions note 30 it was noted that the bought forward balances were the 2018/19 figures rather than the 2019/20. This has now been corrected.	✓
During the course of the audit a number of small disclosure amendments were made to the financial statements. These have not been reported separately due to their insignificant nature.	✓

B. Audit Adjustments (unadjusted)



Impact of unadjusted misstatements in the current and prior year

There are no unadjusted misstatements in the current or prior year.

C. Fees

We confirm below our final fees charged for the audit. There were no fees for the provision of non audit services.

Audit fees	Proposed fee	Final fee
Authority Audit	£41,291	£41,291
Total audit fees (excluding VAT)	£41,291	£41,291

The fees reconcile to the amended financial statements

D. Audit letter in respect of delayed VFM work

Dear Audit and Governance Committee

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies we are required to issue our Auditor's Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation.

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our report no later than 30 September 2021.

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours faithfully

Barrie Morris
Director

Grant Thornton

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