# Devon and Somerset Fire and Rescue Authority Audit Plan

**Year ending 31 March 2022**

21 April 2022

# Contents


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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 Council 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.

# Key matters

## Factors

### Authority developments

Local Government funding continues to be stretched with increasing cost pressures and demand from residents.

We have continued to hold regular meetings with the senior finance team at the Authority. During these meetings we discuss a range of key issues regarding the Authority's general developments, current and projected financial performance, governance issues and regulatory oversight. The budget for 2021/22 was set with a revenue budget of £74.2m and a planned in-year capital expenditure programme of £12.6m. At quarter 3 the Authority is forecasting an overall overspend on revenue of £0.107m. Pay awards have meant that there have been overspends in some areas as they were not anticipated in the original budget. At quarter 3 the capital programme was forecasting an overspend on the overall capital programme of £5.4m, mainly due to proposed refurbishment to Camels Head Fire Station. The quarter 2 performance report shows that against strategic priorities 1 and 2 the Authority is performing well with most KPI's in or around the target set. One area of improvement noted was the number of home safety visits completed. Work is on going in this area and recent reports to the Community Safety Committee set out that a re-structure within the Prevention Department is scheduled for completion by April 2022 and this will create capacity for staff to be able to focus more on risk within the communities of Devon and Somerset.

The Authority's subsidiary company continues to grow. The Authority have assessed the company's in year performance to be material to the Authority as a whole, and are therefore producing group accounts for the first time.

### Recovery from Covid 19 pandemic

There are ongoing economic uncertainties brought about by the Covid 19 pandemic, as the public sector continues to operate within the constraints of a one year funding settlement. Precept flexibility remains the key source of growth in funding to the sector, which has been utilised by Fire Authorities nationally. The government has provided a range of financial support packages throughout the pandemic. This has included additional funding to support the deficit on the collection fund, the cost of services or offset other income losses.

The Covid 19 pandemic has been well managed by the Authority and they have adapted working and governance arrangements to maintain their robust processes and our assessment is that the Authority has developed a good understanding of its financial and wider governance risks during the pandemic and, despite future financial uncertainty about medium term government funding, is well placed to address post Covid 19 challenges.

## Our response

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set further in our Audit Plan, has been agreed with the Director of Finance, People and Estates.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in completing our Value for Money work. This will include a review of both operational and financial performance.
- We will continue to provide you with sector updates via our Audit and Governance Committee updates.
- The Authority's valuer reported a material uncertainty in regards to the valuation of land and buildings in 2020/21 due to the Covid 19 pandemic and it's possible some uncertainty will continue in 2021/22. We identified a significant risk in regards to the valuation of land and buildings – refer to page 8.
- We have included a significant risk in relation to the production of group accounts. This is to ensure that in the first year of production sufficient work is undertaken to fully understand the processes in place to produce accurate group accounts that are code compliant.

# Introduction and headlines

### Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Devon and Somerset Fire and Rescue Authority ('the Authority') for those charged with governance.

### Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor. We draw your attention to both of these documents.

### Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Authority and group's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit and Governance committee); and we consider whether there are sufficient arrangements in place at the Authority and group for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently to maximise the outcomes that can be achieved.

The audit of the financial statements does not relieve management or the Audit and Governance Committee of your responsibilities. It is the responsibility of the Authority to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Authority is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Authority's business and is risk based.

## Group Audit

The Authority have opted to prepare group financial statements for the first time in 2021/22. This is based on the Authority's assessment that Red One Ltd's trading activity is now material to the Authority. As this is the first time the Authority have produced group accounts, we have assessed the consolidation process and disclosure requirements as a significant risk.

## Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management override of controls;
- Revenue transactions which include fraudulent transactions – specifically Red One Limited trading income (remaining sources of income are rebutted)
- Expenditure recognition (rebutted for the group);
- Valuation of Land & Buildings;
- Valuation of Pension Fund Net Liability; and
- Group consolidation and disclosure.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

## Materiality

We have determined planning materiality to be £1.8m for the group and £1.75m (PY £1.75m) for the Authority, which equates to 2% of your prior year gross expenditure for the year. Group materiality is based 2% of forecast group income. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £85k (PY £85k).

## Value for Money arrangements

Our initial risk assessment regarding your arrangements to secure value for money has not identified any risks of significant weakness. We will continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our auditor's annual report. More detail on this initial assessment can be found on page 19.

## Audit logistics

Our planning/interim visit took place in March and April 2022 and our final visit will take place in July and August 2022. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report.

Our fee for the audit will be £47,280, subject to confirmation with PSAA Ltd, (PY: 41,280) for the, Authority subject to the Authority delivering a good set of financial statements and working papers.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) 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.

# Significant improvements from the Financial Reporting Council's (FRC) quality inspection

On 29 October 2021, the FRC published its annual report setting out the findings of its review of the work of local auditors. The report summarises the results of the FRC's inspections of twenty audit files for the last financial year. A link to the report is here: FRC AQR Major Local Audits October 2021

Grant Thornton are one of seven firms which currently delivers local audit work. Of our 330 local government and NHS audits, 87 are currently defined as 'major audits' which fall within the scope of the AQR. This year, the FRC looked at nine of our audits.

### Our file review results

The FRC reviewed nine of our audits last year. It graded six files (67%) as 'Good' and requiring no more than limited improvements. No files were graded as requiring significant improvement, representing an impressive year-on-year improvement. The FRC described the improvement in our audit quality as an 'encouraging response by the firm to the quality findings reported in the prior year.' Our Value for Money work continues to be delivered to a high standard, with all of the files reviewed requiring no more than limited improvement. We welcome the FRC findings and conclusions which demonstrate the impressive improvement we have made in audit quality over the past year.

The FRC also identified a number of good practices including effective challenge of management's valuer, use of an auditor's expert to assist with the audit of a highly specialised property valuation, and the extent and timing of involvement by the audit partner on the VFM conclusion.

### Our continued commitment to Audit quality and continuous improvement

Our work over the past year has been undertaken during the backdrop of COVID, when the public sector has faced the huge challenge of providing essential services and helping safeguard the public during the pandemic. As auditors we have had to reflect on the significant challenges faced by our colleagues working at the front line in delivering vital public services whilst staying focused on the principles of good governance and financial management, things which are more important than ever. We are very proud of the way we have worked effectively with audited bodies, demonstrating empathy in our work whilst still upholding the highest audit quality.

Our results over the past three years are shown in the table below:

| Grade | Number 2018/19 | Number 2019/20 | Number 2020/21 |
|---|---|---|---|
| Good with limited improvements (Grade 1 or 2) | 1 | 1 | 6 |
| Improvements required (Grade 3) | 2 | 5 | 3 |
| Significant improvements required (Grade 4) | 1 | 0 | 0 |
| Total | 4 | 6 | 9 |

Over the coming year we will make further investments in audit quality including strengthening our quality and technical support functions, and increasing the level of training, support and guidance for our audit teams. We will address the specific improvement recommendations raised by the FRC, including:

- enhanced training for local auditors on key assumptions within property valuations, and how to demonstrate an increased level of challenge
- formalising our arrangements for the consideration of complex technical issues by Partner Panels.

As part of our enhanced Value for Money programme, we will focus on identifying the scope for better use of public money, as well as highlighting weaknesses in governance or financial stewardship where we see them.

### Conclusion

Local audit plays a critical role in the way public sector audits an society interact, and it depends on the trust and confidence of all those who rely on it. As a firm we're proud to be doing our part to promote good governance, effective stewardship and appropriate use of public funds.

# Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

We have scoped the group audit and completed our risk assessment based on Red One Ltd's interim financial information and forecast outturn position. We will revisit both areas on receipt of the draft group financial statements when we are clear what the actual position is, and the level of consolidation adjustments that have been applied.

| **Component** | **Individually Significant?** | **Level of response required under ISA (UK) 600** | **Risks identified** | **Planned audit approach** |
|---|---|---|---|---|
| The Authority | Yes | | • The significant risks for the audit are set out on pages 9-12 of this audit plan. | Full scope audit performed by Grant Thornton UK LLP |
| Red One Ltd | No | | • We have identified the occurrence and accuracy of Red One Ltd's trading income as a significant risk.<br>• Whilst we have not identified a significant risk in relation to Red One Ltd's expenditure, this is forecast to be a material balance that will require audit consideration.<br>• We have included a significant risk in terms of the first time preparation of group accounts. | We have noted that Redo One Ltd have appointed and external auditor – Albert Goodman LLP.<br>Specific scope procedures on Income (significant risk) and expenditure (material) to be performed by Albert Goodman LLP.<br><br>The nature, time and extent of our involvement in the work of Albert Goodnam LLP will begin with a discussion on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of the auditor's audit documentation and meeting with appropriate members of management. |

Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to  risks of material misstatement of the group financial statements
- Analytical procedures at group level

# Significant risks identified

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.

| Risk | Risk relates to | Reason for risk identification | Key aspects of our proposed response to the risk |
|---|---|---|---|
| Group Revenue | Subsidiary | Under ISA 240 (UK) there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. The presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue and expenditure recognition.<br><br>For Devon and Somerset Fire and Rescue Authority, we have concluded that the greatest risk of material misstatement relates to Group Revenue.<br><br>We have therefore identified the occurrence and accuracy of Red One Ltd trading income as a significant risk of material misstatement, and a key audit matter.<br><br>We have rebutted this presumed risk for the revenue streams of the Authority because:<br>• Other income streams are primarily derived from grants or formula based income from Central Government and tax payers; and<br>• Opportunities to manipulate revenue recognition are very limited. | For Group Revenue revenue we will:<br>• Evaluate the group's accounting policies for the recognition of income for appropriateness;<br>• Gain an understanding of the group's system for accounting for income and evaluate the design of the associated controls; and<br>• Agree, on a sample basis, the amounts recognised as income in the financial statements to supporting documents. Where possible this will be through placing reliance upon the work of the subsidiary auditor.<br><br>We will continue to review and test, on a sample basis, material revenue and expenditure transactions within the Authority's accounts, ensuring that it remains appropriate to rebut the presumed risk of revenue and expenditure recognition. |

# Significant risks identified (continued)

| Risk | Risk relates to | Reason for risk identification | Key aspects of our proposed response to the risk |
|---|---|---|---|
| Management over-ride of controls | Authority and Subsidiary | Under ISA 240 (UK) there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.<br><br>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. | We will:<br>• evaluate the design effectiveness of management controls over journals.<br>• analyse the journals listing and determine the criteria for selecting high risk unusual journals.<br>• test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration.<br>• gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence.<br>• evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions. |
| Valuation of land and buildings | Authority | 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 (£99m) and the sensitivity of this estimate to changes in key assumptions.<br><br>Management have engaged the services of a valuer to estimate the current value as at 31 March 2022.<br><br>The valuation of land and buildings is a key accounting estimate which is sensitive to changes in assumptions and market conditions.<br><br>We therefore identified valuation of land and buildings as a significant risk, in particular any large or unusual assets or where there have been movements in valuations outside our expectations, as well as testing a sample of those within our expectations. This is one of the most significant assessed risks of material misstatement, and a key audit matter. | We will:<br>• evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work.<br>• evaluate the competence, capabilities and objectivity of the valuation expert.<br>• write to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met.<br>• discuss with the valuer the basis on which the valuations were carried out.<br>• challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding.<br>• Test, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Authority's asset register.<br>• Evaluate 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. |

# Significant risks identified (continued)

| Risk | Risk relates to | Reason for risk identification | Key aspects of our proposed response to the risk |
|---|---|---|---|
| Valuation of the pension fund net liability | Authority | The Local Government Pension Scheme (LGPS) pension net liability as reflected in the balance sheet, and asset and liability information disclosed in the notes to the accounts, represent a significant estimate in the financial statements.<br><br>The Firefighters Pension scheme's pension fund liability as reflected in the balance sheet and notes to the accounts also represents a significant estimate in the financial statements.<br><br>These estimates by their nature are subject to significant estimation uncertainty being sensitive to small adjustments in the key assumptions used.<br><br>The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount and inflation rates, where our consulting actuary has indicated that a 0.1% change in these two assumptions would have approximately 2.2% effect on the liability. We have therefore concluded that there is  a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Authority's pension fund net liability as a significant risk. | We will:<br>• update 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;<br>• evaluate the instructions issued by management  to their management expert (an actuary) for this estimate and the scope of the actuary's work;<br>• assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation;<br>• assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability;<br>• test 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;<br>• undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as the auditor's expert) and performing any additional procedures suggested within the report;<br>• agree the advance payment made to the pension fund during the year to the expected accounting treatment and relevant financial disclosures; and<br>• obtain 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 Devon Pension Fund financial statements.<br>• test the data provided to the actuary of the Fire Fighter Pension Fund. |

# Significant risks identified (continued)

| Risk | Risk relates to | Reason for risk identification | Key aspects of our proposed response to the risk |
|---|---|---|---|
| Preparation of Group financial statements and related disclosures | Group | The 2021/22 is the first year that the Authority will prepare group accounts.<br><br>Group accounts, when prepared, are pervasive to the whole of the financial statements. There are also a number of disclosure requirements that are required by the code and the consolidation process can be often complex.<br><br>We have therefore concluded that there is a risk of material misstatement. | As part of our procedures we will:<br>• review the process of consolidations and understand what work has been undertaken to align reporting requirements and time scales,<br>• ensure group disclosures are in line with code requirements,<br>• liaise with the subsidiary company's auditor to gain assurance over significant balances, and<br>• rest any adjustments made on consolidation. |

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report.

# Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures which* includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

### Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit and Governance Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

### Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2022.

Based on our knowledge of the Authority we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings;
- Depreciation;
- Year end provisions and accruals;
- Valuation of defined benefit net pension fund liabilities; and
- Fair value estimates of investments and borrowings,

### The Authority's Information systems

In respect of the Authority's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Authority uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Authority (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.

## Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainly is unresolved.

## Planning enquiries

As part of our planning risk assessment procedures we have made enquiries of management through our Informing the Audit Risk Assessment document as a separate exercise. This document was presented to the Audit and Governance Committee meeting in March 2022 to confirm that the Authority, as Those Charged with Governance, considers the responses to be consistent with their understanding.

## Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf

# Other matters

## Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Authority.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your 2021/22 financial statements, consider and decide upon any objections received in relation to the 2021/22financial statements;
  - issuing a report in the public interest or written recommendations to the Authority under section 24 of the Local Audit and Accountability Act 2014 (the Act).
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
  - issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

## Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

# Materiality

### The concept of materiality

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. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

### Materiality for planning purposes

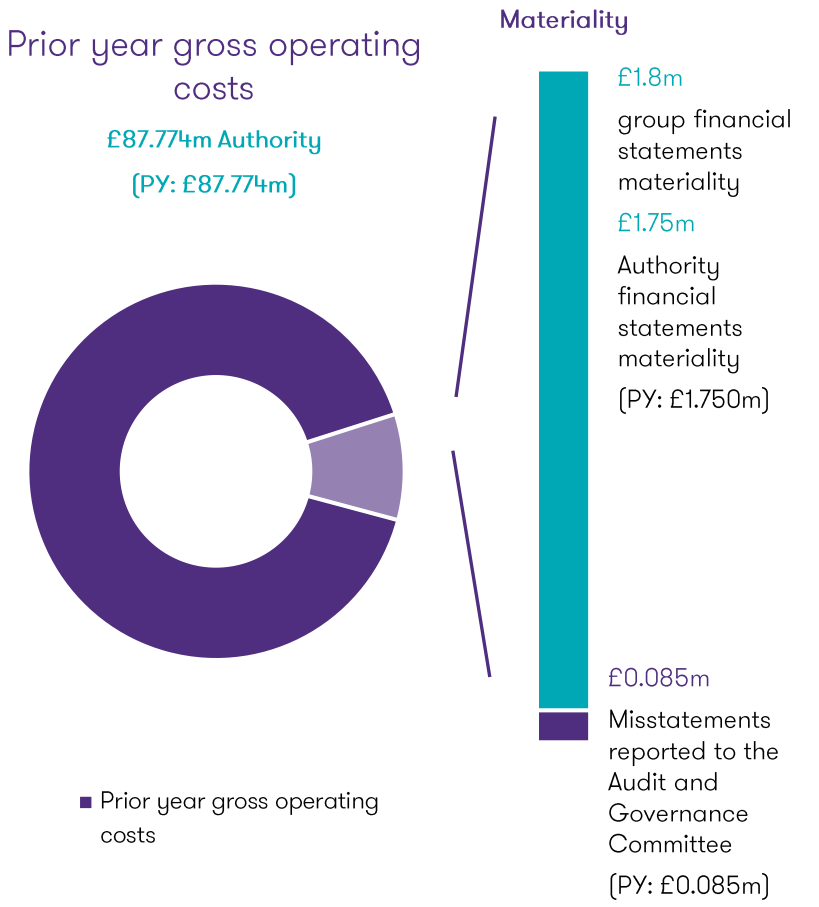
We have determined financial statement materiality based on a proportion of the gross expenditure of the group and Authority for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £1.8m for the group and £1.75m (PY £1.75m) for the Authority, which equates to 2% of your forecast gross expenditure for the year. We recognise the public interest in senior officer remuneration disclosures. For our work in this area we will be auditing to the detailed disclosure requirements and where we identify differences that change the amount, or bandings, we will request that these are amended. In addition we have set a separate we have set a specific materiality of £20k (PY £20k) for individual senior officers.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

### Matters we will report to the Audit and Governance Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. 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. In the context of the group and Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.085m (PY £0.085m).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit and Governance Committee to assist it in fulfilling its governance responsibilities.



# IT audit strategy

In accordance with ISA (UK) 315, we are required to obtain an understanding of the information systems relevant to financial reporting to identify and assess the risks of material misstatement. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design of ITGCs related to security management; technology acquisition, development and maintenance; and technology infrastructure. Based on the level of assurance required for each IT system the assessment may focus on evaluating key risk areas ('streamlined assessment') or be more in depth ('detailed assessment').

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

| IT system | Audit area | Planned level IT audit assessment |
|---|---|---|
| Capita Integra (Core Finance Management System) | Financial reporting | • Streamlined ITGC design assessment |
| Midland Trent (Payroll) | Payroll | • Streamlined ITGC design assessment |

# Value for Money arrangements

The National Audit Office(NAO) issued updated guidance for auditors in April 2020. The Code requires 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 three specified reporting criteria. These are as set out below:

### 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

We have not identified any risks of significant weaknesses from our initial planning work. We will continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our auditor's annual report.

In the previous year(s) we have included financial sustainability as a risk of significant weakness. For 2021/22, we do not consider this a significant risk. This is due to the findings of our work in prior years, the financial monitoring arrangements in place, the Authority's history of delivery, and the open and transparent reporting arrangements. This is not to suggest that the Authority do not face a financial challenge over the medium term, and whilst we have not identified this as a significant risk it will remain an area of focus.

Our planning has also identified a number of areas for follow up. These are:
- review of the fire inspection review due in May 2022,
- follow up on progress against our prior year recommendations that were made in the 2020/21 Auditors Annual Report, and
- follow up progress on lack of formal governance structure and operational management of Light Support Fleet, that was set out in Internal Audits report.

# Audit logistics and team


### Barrie Morris, Key Audit Partner

Barrie leads our relationship with you and takes overall responsibility for the delivery of a high quality audit, meeting the highest professional standards and adding value to the Authority

### Andrew Davies, Engagement Manager

Aditi plans, manages and leads the delivery of the audit, is your key point of contact for your finance team and is your first point of contact for discussing any issues arising

### Vanilla Shi, Engagement In-charge

Vanilla's role is to assist in planning, managing and delivering the audit fieldwork, ensuring the audit is delivered effectively and efficiently, and is also involved in supervising and co-ordinating the audit team.

### Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

### Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the agreed timetable you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of items for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

# Audit fees

PSAA awarded a contract of audit for Devon and Somerset Fire and Rescue Authority with the fee initially agreed in the contract at £26,041. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2021/22 audit. The prior year audit fee, and therefore this years base fee was £41,280.

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as detailed on pages 11 and 12 in relation to the updated ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. Our proposed work and fee for 2021/22, is set out below and has been agreed with the Director of Finance, People and Estates.

In 2021/22 the Authority are producing Group Accounts for the first time, which will require additional audit procedures. We have agreed and additional fee of £3,000 for this work.

In addition, we are recognising that audits are less efficient when completed remotely. We are therefore proposing an additional fee where audited bodies preference is to maintain remote working. We have agreed and additional fee of £3,000 for this.

The final proposed fee for 2021/22 is £47,280.

| | **Actual Fee 2020/21** | **Proposed fee 2021/22** |
|---|---|---|
| Authority Audit (including Group Accounts for 2021-22) | £41,280 | £47,280 |
| Total audit fees (excluding VAT) | £41,280 | £47,280 |

### Assumptions

In setting the above fees, we have assumed that the Authority will:

- prepare a good quality set of financial statements , supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

### Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard (revised 2019) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

# Independence and non-audit services

## Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 (Revised 2019) 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.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority.

## Other services

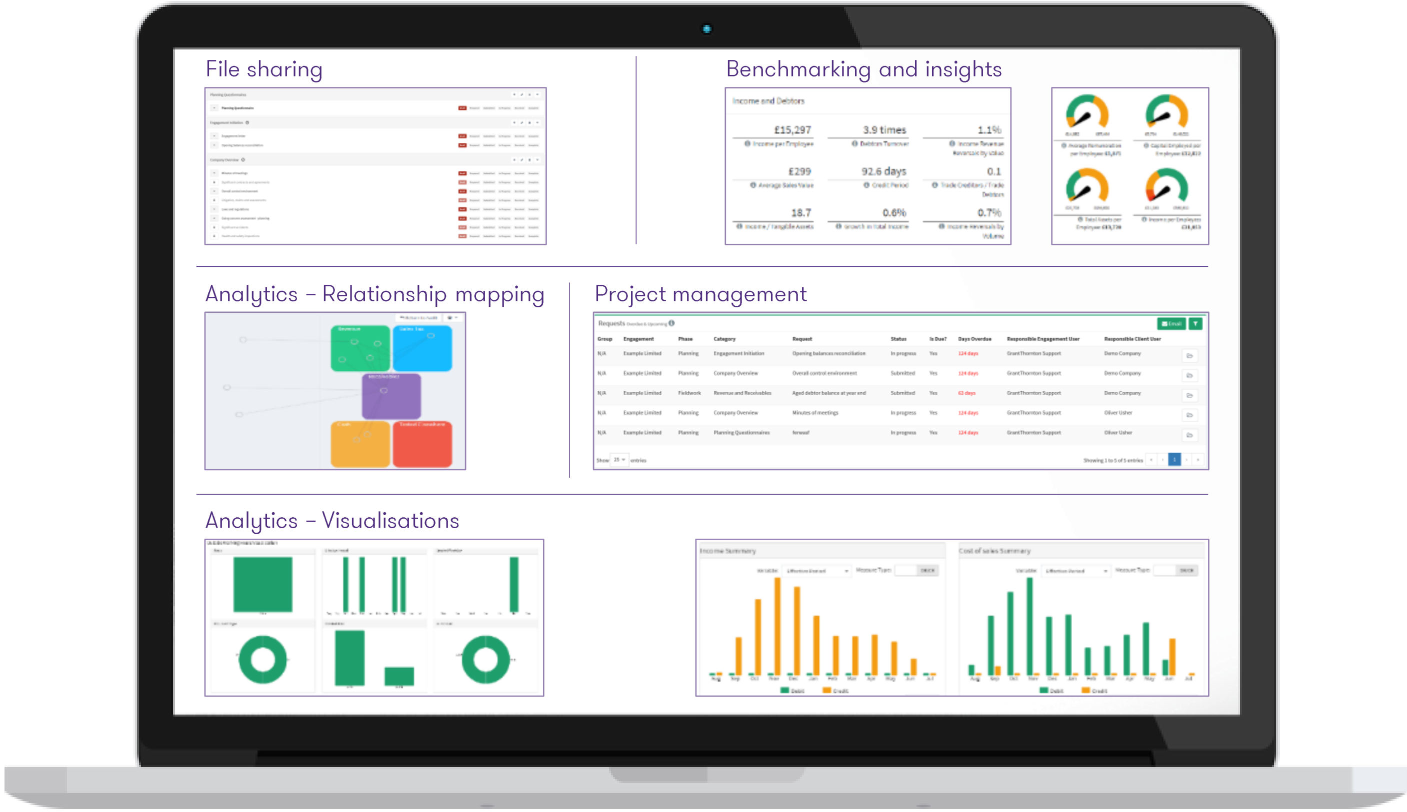
No other services provided by Grant Thornton were identified.

Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

# Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Inflo Software technology. This tool has a number of key functions within our audit process:

| Function | Benefits for you |
|---|---|
| Data extraction | Providing us with your financial information is made easier |
| File sharing | An easy-to-use, ISO 27001 certified, purpose-built file sharing tool |
| Project management | Effective management and oversight of requests and responsibilities |
| Data analytics | Enhanced assurance from access to complete data populations |




Grant Thornton's Analytics solution is supported by Inflo Software technology

# Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Inflo Software technology. This tool has a number of key functions within our audit process:

### Data extraction

- Real-time access to data
- Easy step-by-step guides to support you upload your data

### File sharing

- Task-based ISO 27001 certified file sharing space, ensuring requests for each task are easy to follow
- Ability to communicate in the tool, ensuring all team members have visibility on discussions about your audit, reducing duplication of work

### Project management

- Facilitates oversight of requests
- Access to a live request list at all times

### Data analytics

- Relationship mapping, allowing understanding of whole cycles to be obtained quickly
- Visualisation of transactions, allowing easy identification of trends and anomalies

## How will analytics add value to your audit?

Analytics will add value to your audit in a number of ways. We see the key benefits of extensive use of data analytics within the audit process to be the following:

| Improved fraud procedures using powerful anomaly detection | More time for you to perform the day job |
|---|---|
| Being able to analyse every accounting transaction across your business enhances our fraud procedures. We can immediately identify high risk transactions, focusing our work on these to provide greater assurance to you, and other stakeholders.<br><br>Examples of anomaly detection include analysis of user activity, which may highlight inappropriate access permissions, and reviewing seldom used accounts, which could identify efficiencies through reducing unnecessary codes and therefore unnecessary internal maintenance.<br><br>Another product of this is identification of issues that are not specific to individual postings, such as training requirements being identified for members of staff with high error rates, or who are relying on use of suspense accounts. | Providing all this additional value does not require additional input from you or your team. In fact, less of your time is required to prepare information for the audit and to provide supporting information to us.<br><br>Complete extracts from your general ledger will be obtained from the data provided to us and requests will therefore be reduced.<br><br>We provide transparent project management, allowing us to seamlessly collaborate with each other to complete the audit on time and around other commitments.<br><br>We will both have access to a dashboard which provides a real-time overview of audit progress, down to individual information items we need from each other. Tasks can easily be allocated across your team to ensure roles and responsibilities are well defined.<br><br>Using filters, you and your team will quickly be able to identify actions required, meaning any delays can be flagged earlier in the process. Accessible through any browser, the audit status is always available on any device providing you with the information to work flexibly around your other commitments. |

# Appendix 1: Progress against prior year audit recommendations

We identified the following issues in our 2020/21 audit of the Authority's financial statements, which resulted in 4 recommendations being reported in our 2020/21 Audit Findings Report. Progress against each of these recommendations is set out in the table below.

| Assessment | Issue and risk previously communicated | Update on actions taken to address the issue |
|---|---|---|
| Not yet assessed | 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 recommended that the Authority introduce preventative controls for the approval of journals. | We will review progress against this recommendation as part of our year end journals testing. |
| Not yet assessed | 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 recommended implementing a structure/policy on authorisation limits. | We will review progress against this recommendation as part of our year end journals testing. |
| Not yet assessed | 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.<br>We recommended that Integra be updated to remove this bug. | We will review progress against this recommendation as part of our year end journals testing. |
| Not yet assessed | The code requires that where areas of estimation uncertainty are disclosed the note should set out the impact of changes to the key assumptions on the values within the financial statements.<br><br>We recommended that the Authority enhance the note 4 disclosure, to meet the requirements of the code. | We will review progress against this recommendation on receipt of the draft financial statements. |

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