



Dorset & Wiltshire Fire and Rescue Authority

Report to the Finance & Governance Committee on the audit for the year ended 31 March 2019

Issued 16 July 2019 for the meeting on 24 July 2019

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Introduction

The key messages in this report

I have pleasure in presenting our report to the Finance & Governance Committee (the committee) for the 2019 audit. The scope of our audit was set out within our planning report presented to the Committee in February 2019.

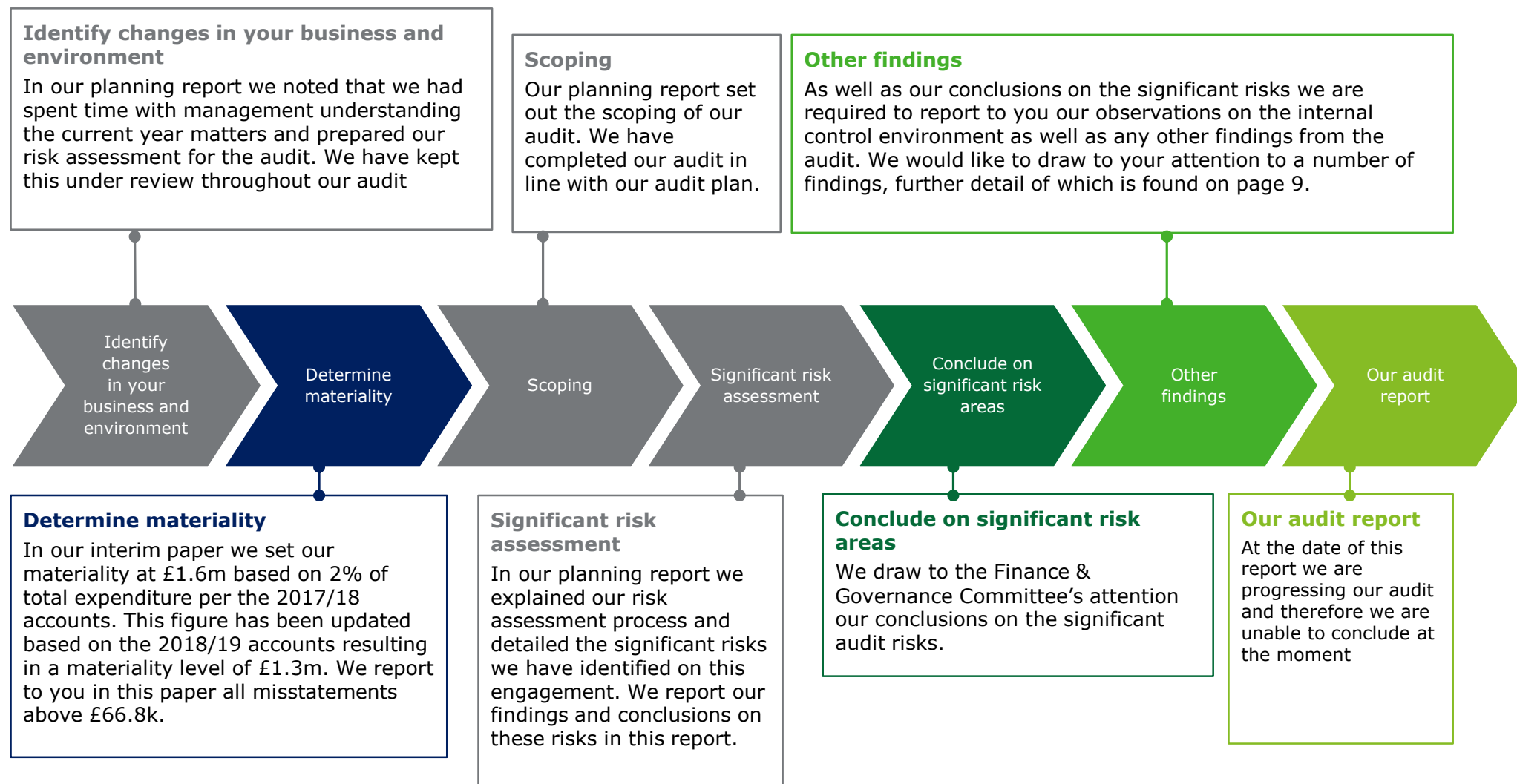
Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

| | |
|---|--|
| Status of the audit | <p>Our audit is underway with the following principal matters to be finalised:</p> <ul style="list-style-type: none">• update of the pension liability and disclosures for the impact of the McCloud judgement;• completion of audit fieldwork (including work in relation to pension membership data, and input data for valuations and value for money considerations);• receipt of information from Wiltshire County Pension Fund auditors;• receipt of final financial statements;• Completion of internal quality assurance procedures;• receipt of signed management representation letter; and• our review of events since 31 March 2019 through to signing. <p>We will provide an oral update on the completion of these matters at the meeting of the Finance & Governance Committee.</p> |
| Conclusions from our testing | <ul style="list-style-type: none">• At the date of this report we are progressing our audit and we are unable to conclude at the moment. We will provide a verbal update at the meeting updating the committee on our progress since the issue of this report. |
| Narrative Report & Annual Governance Statement | <ul style="list-style-type: none">• At the date of this report we are progressing our audit and we are unable to conclude at the moment. We will provide a verbal update at the meeting updating the committee on our progress since the issue of this report. |
| Duties as public auditor | <ul style="list-style-type: none">• We did not receive any queries or objections from local electors this year.• At this stage of the audit we have not identified any matters that would require us to issue a public interest report. We have not had to exercise any other audit powers under the Local Audit and Accountability Act 2014. |







Our audit explained

We tailor our audit to the Authority and your strategy



Significant risks

Dashboard

| Risk | Material | Fraud risk | Planned approach to controls testing | Comments | Page no. |
|---|---|---|--------------------------------------|---------------------------|----------|
| Property Valuations |  |  | D+I | Substantive work ongoing. | 6 |
| Completeness and Cut-off of Expenditure |  |  | D+I | Substantive work ongoing. | 7 |
| Management Override of Controls |  |  | D+I | Substantive work ongoing. | 7 |

D+I: Testing of the design and implementation of key controls

Significant risks (continued)

Property valuations

Risk identified

The Authority held £40.2m of property assets (land and buildings) at 31 March 2017 which increased to £44.2m as at 31 March 2018. The increase in movement in part was due to upwards revaluations of £1.4m as results of the authority undertaking independent valuation exercise during 2017/18.

The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Authority has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. As a result of this, however, individual assets may not be revalued for four years. This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value.

Key judgements

Property assets are revalued as part of the Authority's five year rolling programme for the revaluation. The valuations are carried out by the Authority's external valuers, BNP Paribas.

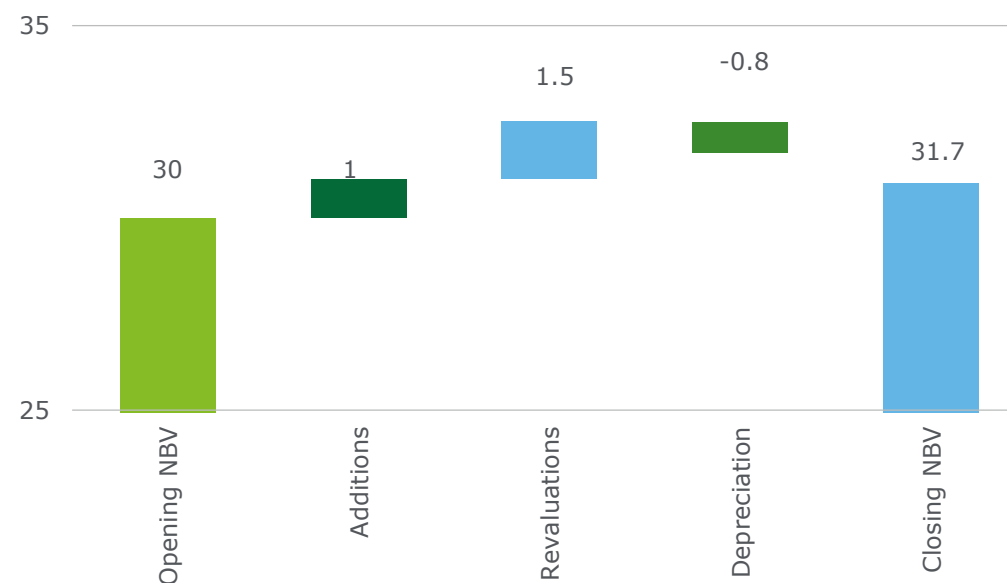
The financial year to 31 March 2019 represented part of a five year rolling programme. 12 of the Authority's asset portfolio were valued.

The valuation was prepared as at 31 March 2019.

As shown in the graph the main movements supporting the upward trend in the Authorities land and buildings assets are the revaluation of £1.5m and capital additions of £1m.

Deloitte response

- At the date of this report, testing of this significant risk was in progress.



Deloitte view

[To be completed].

Significant risks (continued)

Completeness and Cut-off of Expenditure

Risk identified

Under UK auditing standards, there is a presumed risk of revenue recognition due to fraud. We have rebutted this risk, and instead believe that the fraud risk lies with the completeness and cut-off of expenditure and completeness and valuation of accruals.

In February 2018, the Authority approved a budget with a net cost of service of £58.3m. As at July 2018, the Authority reported an underspend of £0.5m against this position. This forecasted position has deteriorated to £0.16m under budget (as at September 2018). Given the Authority's current budget position and the pressures across the whole of the public sector, there is an inherent fraud risk associated with the under recording of expenditure in order for the Authority to report a more favourable year-end position.

There is a risk that the Authority may materially misstate expenditure through the accruals and provisions balance, including year-end transactions, in an attempt to report a more favourable year end position.

Deloitte response

- At the date of this report, testing of this significant risk was in progress.

Management override of controls

Risk identified

In accordance with ISA 240 (UK and Ireland) management override is a significant risk. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Authority's controls for specific transactions.

The key judgements in the financial statements are those which we have selected to be the significant audit risks, i.e. completeness and cut-off of expenditure and the Authority's property valuations. These are inherently the areas in which management has the potential to use their judgment to influence the financial statements.

Deloitte response

- At the date of this report, testing of this significant risk was in progress.

Other matters

Value for money

Background

Under the National Audit Office's Code of Audit Practice, we are required to report whether, in our opinion, the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The Code and supporting Auditor Guidance Notes require us to perform a risk assessment to identify any risks that have the potential to cause us to reach an inappropriate conclusion on the audited body's arrangements. We are required to carry out further work where we identify a significant risk - if we do not identify any significant risks, there is no requirement to carry out further work.

Deloitte risk assessment

- We obtained an understanding of the Authority's Medium Term Financial Plan, and budget for 2019/20.
- We reviewed the Authority's draft Narrative Report, Annual Governance Statement and relevant Authority papers and minutes.
- We considered the Authority's financial results for the year and the assumptions in the budget for future years.
- We considered matters identified by the National Audit Office as potential value for money risks for Authority for 2018/19.
- Based upon the work performed in our risk assessment, we did not identify any significant audit risks consistent with our Planning Report.

Deloitte view

At this stage in the audit no significant value for money risks have been identified.

Pensions Liability – McCloud Judgement

The Authority's pension liability is derived from actuarial estimates of the assets and liabilities of the Local Government Pension Scheme (LGPS) and a Firefighters Pension Scheme (FPS). Both schemes are affected by the McCloud legal case in respect of potential discrimination in the implementation of transitional protections following changes in public sector pension schemes in 2015. Subsequent to year-end, the Government was denied leave to appeal the case, removing the uncertainty over recognition of a liability.

As a result, the Authority is required to recognise the cost associated with remediating the discrimination. At present there has not been a ruling on the specific form of the remediation's required, however a number of different factors impact on this – including the average age of the plan membership, and salary growth assumptions. The Government Actuaries Department (GAD) has modelled a prudent estimate of the impact of the ruling for LGPS at 3.2% of active member liabilities, based on an average age of 46, and salary growth equating to Consumer Price Index inflation plus 1.5% for active members. For the Firefighters scheme, such modelling has not been completed, but indications based on the size of the pension liability suggest that it could be material. As a result, the IAS 19 reports generated by the scheme actuaries that calculate the liability need to be rerun. The Authority's finance team will then need to update the accounts and the associated notes.

Once this has been completed, the external audit team will engage their specialists to review the assumptions used and tie through the notes to the supporting IAS 19 reports.

Other significant findings

Internal control and risk management

During the course of our audit we have identified a number of internal control and risk management findings, which we have included below for information. It should be noted that additional control findings may arise during the completion of the audit testing that is in progress.

The purpose of the audit was for us to express an opinion on the financial statements. The audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters being reported are limited to those deficiencies that we have identified during the audit and that we have concluded are of sufficient importance to merit being reported to you.

| Observation | Deloitte recommendation |
|--|--|
| <p data-bbox="226 651 898 679">Authentication Security Settings for Agresso:</p> <p data-bbox="226 730 1059 791">During our review, we noted that the password settings below on Agresso are not aligned to industry standards:</p> <ul data-bbox="226 802 1059 1102" style="list-style-type: none"><li data-bbox="226 802 1059 895">• No automated control in place to ensure users will use different types of characters while defining passwords to increase security.<li data-bbox="226 906 1059 999">• Password history is not enabled which determines the number of unique new passwords that must be associated with a user account before an old password can be reused<li data-bbox="226 1010 1059 1102">• No lockout threshold enabled which determines the number of failed sign-in attempts that will cause a user account to be locked | <p data-bbox="1097 651 2096 807">Authentication control weaknesses increase the vulnerability of accounts to unauthorised access attempts and should be addressed, either through implementing stronger password parameters in the system or, if this is not possible, through alternative monitoring controls to increase the chance of detecting any such attempts.</p> |
| <p data-bbox="226 1126 714 1155">Lack of user access right review:</p> <p data-bbox="226 1206 1059 1331">We have been informed that user access right reviews on Windows Active Directory and Agresso are not formally documented and are conducted on an adhoc basis by the respective system administrators.</p> | <p data-bbox="1097 1126 2132 1444">User access reviews are vital in making sure that access is provided only on need to do or need to know basis. Without performing regular user access reviews, management cannot ensure that access rights to information systems continue to match the job responsibilities of individuals. We recommend that management introduce a formal review of user accounts and access rights at least annually to detect dormant accounts and accounts with excessive privileges. Related review should be designed to include all accounts in the system, such as accounts being used by external contractors, etc. and follow up procedures to ensure remediation actions are taken for the excessive level of accesses granted are disabled on a timely basis.</p> |

Other significant findings (continued)

Financial reporting findings

Below are the findings from our audit surrounding your financial reporting process.

Qualitative aspects of your accounting practices:

No issues have been identified as at the date of this report.

Significant matters discussed with management:

No issues have been identified as at the date of this report.

Other matters relevant to financial reporting:

No issues have been identified as at the date of this report.

We will obtain written representations from those charged with governance on matters material to the financial statements when other sufficient appropriate audit evidence cannot reasonably be expected to exist. A copy of the draft representations letter has been circulated separately.

Our audit report

Matters relating to the form and content of our report

Here we discuss how the results of the audit impact on other significant sections of our audit report. At this stage in the audit no issues have been noted, however as the audit is completed items that impact on the below areas may be identified.



Our opinion on the financial statements

We anticipate issuing an unmodified opinion on the financial statements.



Material uncertainty related to going concern

We have not identified a material uncertainty related to going concern and will report by exception regarding the appropriateness of the use of the going concern basis of accounting.



Emphasis of matter and other matter paragraphs

There are no matters we judge to be of fundamental importance in the financial statements that we consider it necessary to draw attention to in an emphasis of matter paragraph.
There are no matters relevant to users' understanding of the audit that we consider necessary to communicate in an other matter paragraph.



Our value for money conclusion

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money).
We anticipate issuing a unmodified conclusion on the Authority's arrangement.



Other reporting responsibilities

The Annual Report is reviewed in its entirety for material consistency with the financial statements and the audit work performed and to ensure that they are fair, balanced and reasonable.

Your annual report

We are required to report by exception on any issues identified in respect of the Narrative Report and Annual Governance Statement. . At this stage in the audit no issues have been noted, however as the audit is completed items that impact on the below areas may be identified.

| | Requirement | Deloitte response |
|-----------------------------|--|---|
| Narrative Report | <p>The Narrative Report is expected to address (as relevant to the Authority):</p> <ul style="list-style-type: none"> - Organisational overview and external environment; - Governance; - Operational Model; - Risks and opportunities; - Strategy and resource allocation; - Performance; - Outlook; and - Basis of preparation | <p>We have assessed whether the Narrative Report has been prepared in accordance with CIPFA guidance.</p> <p>We have also read the Narrative Report for consistency with the annual accounts and our knowledge acquired during the course of performing the audit, and is not otherwise misleading.</p> <p>Our review identified a number of minor areas where the Narrative Reports needed revising in order to comply with guidance and to ensure that they were fair, balanced and understandable, which have been reflected in the final version.</p> |
| Annual Governance Statement | The Annual Governance Statement reports that governance arrangements provide assurance, are adequate and are operating effectively. | No issues have been identified as at the date of this report. |

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Finance & Governance Committee and the Authority discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 (UK) to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Report.
- Our internal control observations.
- Other insights we have identified from our audit.

What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the Authority.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

The scope of our work

Our observations are developed in the context of our audit of the financial statements. We described the scope of our work in our audit plan and again in this report.

This report has been prepared for the Finance & Governance Committee and Authority, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

We welcome the opportunity to discuss our report with you and receive your feedback.

Michelle Hopton

for and on behalf of Deloitte LLP
Bristol

16 July 2019

Appendices



Audit adjustments

Unadjusted misstatements/disclosure deficiencies

At the date of this report, no uncorrected misstatements or uncorrected disclosure deficiencies were identified.

Corrected misstatements/disclosure deficiencies

At the date of this report, no corrected misstatements or corrected disclosure deficiencies were identified.

Fraud responsibilities and representations

Responsibilities explained



Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.



Required representations:

We have asked the Authority to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you are not aware of any fraud or suspected fraud that affects the Authority.

We have also asked the Authority to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.



Audit work performed:

In our planning we identified completeness and cut off of expenditure and management override of controls as key audit risks for your organisation.

During the course of our audit, we have had discussions with management and those charged with governance and have not identified any further risks relating to fraud.

Concerns:

No concerns identified during our work completed to date.

Independence and fees

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

| | |
|---------------------------|---|
| Independence confirmation | We confirm that we comply with APB Ethical Standards for Auditors and that, in our professional judgement, we and, where applicable, all Deloitte network firms are independent and our objectivity is not compromised. |
| Fees | <p>The audit fee for 2018/19, in line with the fee range provided by Public Section Audit Appointments (PSAA), is £34,650.</p> <p>No non-audit fees have been charged by Deloitte in the period.</p> |
| Non-audit services | In our opinion there are no inconsistencies between Auditing Practices Board (APB) Ethical Standards for Auditors and the Authority's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary. |
| Relationships | <p>We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL (Deloitte Touche Tohmatsu Limited) network to the Authority, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence.</p> <p>We are not aware of any relationships which are required to be disclosed.</p> |



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