



External Audit Plan 2016/2017

Dorset & Wiltshire Fire and Rescue Authority

November 2016



Headlines - Dorset Fire Authority

Financial Statement Audit



There are no significant changes to the Code of Practice on Local Authority Accounting in 2016/17 that apply to the Authority, which provides stability in terms of the accounting standards the Authority need to comply with.

Materiality

Materiality for planning purposes has been based on budgeted 2016/17 gross expenditure and set at **£850,000**.

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance and this has been set at **£42,500**.

Significant risks

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

- Valuation of property; and
- Combination accounting.

See pages 4 to 6 for more details.

Value for Money Arrangements work



The National Audit Office has made only minor refinements to the guidance for the VFM audit which applies to the 2016/17 audit year. The VFM audit considers the Authority's arrangements over three sub-criteria:

- informed decision making;
- sustainable resource deployment; and
- working with partners and third parties.

Our risk assessment is ongoing and we will report on any significant VFM audit risks during our audit.

See pages 7 to 9 for more details.

Logistics



Our team is:

- Darren Gilbert – Director
- David Parson – Manager
- Paris Bishop – Audit In-charge

More details are on **page 12**.

Our work will be completed in four phases from November to September and our key deliverables are this Audit Plan and a Report to those charged with Governance as outlined on **page 11**.

Our fee for the audit is £45,000 as detailed on **page 10**.

Introduction

Background and Statutory responsibilities

This document supplements our Audit Fee Letter 2016/17 presented to you in September 2016, which also set out details of our appointment by Public Sector Audit Appointments Ltd (PSAA).

This is our first audit plan for the Authority following its establishment in April 2016. Whilst in practical terms much of our audit work will operate as a continuation of the work we performed as auditor of the former Wiltshire & Swindon and Dorset Fire Authorities, there are aspects of our audit approach this year that will need to reflect the Authority's status as a newly formed body. In some cases this will involve specific additional audit procedures that are required in this first year of audit. In others, we will need to consider the continuing development of the Authority's governance and control environment as these are established, refined and embedded.

Our statutory responsibilities and powers are set out in the Local Audit and Accountability Act 2014 and the National Audit Office's Code of Audit Practice.

Our audit has two key objectives, requiring us to audit/review and report on your:

- *Financial statements (including the Annual Governance Statement):* Providing an opinion on your accounts; and
- *Use of resources:* Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

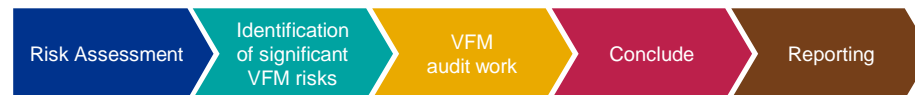
Financial Statements Audit

Our financial statements audit work follows a four stage audit process which is identified below. Appendix 1 provides more detail on the activities that this includes. This report concentrates on the Financial Statements Audit Planning stage of the Financial Statements Audit.



Value for Money Arrangements Work

Our Value for Money (VFM) Arrangements audit follows a five stage process which is identified below. Page 7 provides more detail on the activities that this includes. This report concentrates on explaining the VFM approach for 2016/17.



Financial statements audit planning



Financial Statements Audit Planning

Our planning work takes place during November 2016 to April 2017. This involves the following key aspects:

- Risk assessment;
- Determining our materiality level; and
- Issuing this audit plan to communicate our audit strategy.

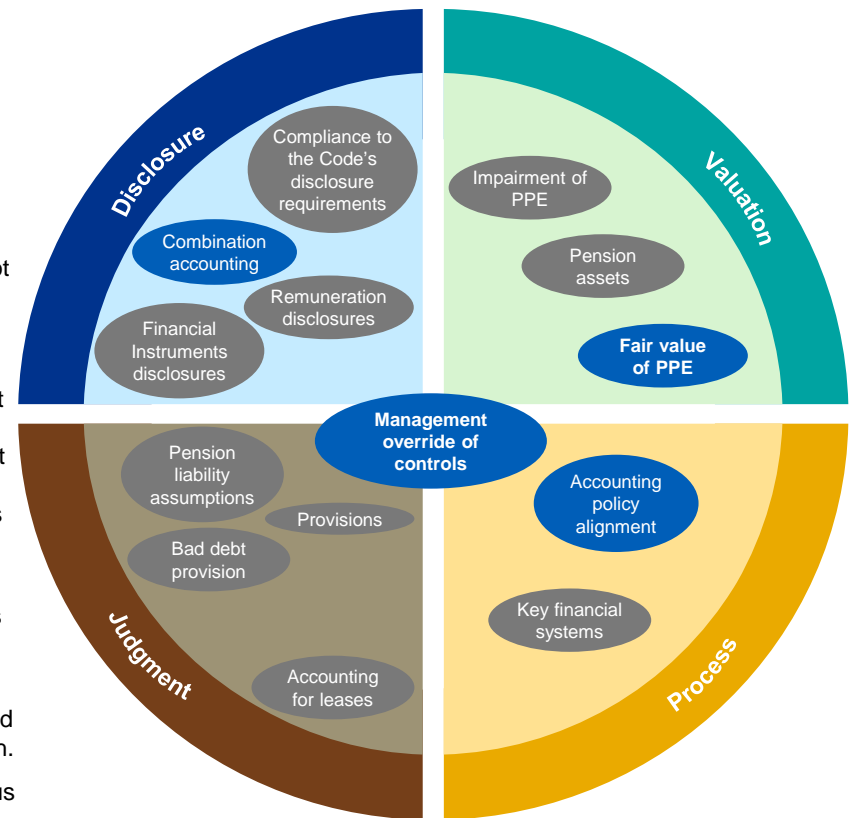
Risk assessment

Professional standards require us to consider two standard risks for all organisations. We are not elaborating on these standard risks in this plan but consider them as a matter of course in our audit and will include any findings arising from our work in our ISA 260 Report.

- *Management override of controls* – Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.
- *Fraudulent revenue recognition* – We do not consider this to be a significant risk for fire authorities as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

The diagram opposite identifies, significant risks and other areas of audit focus, which we expand on overleaf. The diagram also identifies a range of other areas considered by our audit approach.

With the new Dorset & Wiltshire Fire and Rescue Authority having replaced the demised previous individual fire authorities as at 1 April 2016, there are a newly formed control environment and financial controls. These will draw from the previous arrangements at the demised authorities, but we expect that certain elements may be refined or changed. We will therefore need to consider this in our risk assessment as we continue to develop our audit approach.



Keys: ● Significant risk ● Other area of audit focus ● Example other areas considered by our approach



Significant Audit Risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error.

Significant Risk 1 – Property Valuation

Risk

The CIPFA Code of Practice on Local Authority Accounting requires that property is re-valued with sufficient frequency to ensure that there is not a material difference between the fair value of the assets and their carrying value, and in any case at a frequency of at least every five years. It is anticipated that Dorset & Wiltshire Fire & Rescue Authority property asset portfolio will be revalued on a regular basis as a single exercise covering all land and buildings. The last valuation performed was from 31 March 2016.

Should assets not be revalued at the year end balance sheet date, there is therefore a risk that significant changes in the fair value of property during the year may not be reflected in the value of assets held on the balance sheet at year end.

The previous authorities adopted differing valuation approaches, with Wiltshire & Swindon Fire Authority holding its property assets at Existing Use Value (EUV), while Dorset Fire Authority held its property at Depreciated Replacement Cost (DRC). The new authority will need to adopt a consistent valuation accounting policy across its entire property portfolio, which will lead to a significant change in carrying amount for one half of its adopted estate. We understand it is the valuation methodology for the Dorset Fire Authority property which will change (from DRC to EUV) as the accounting policy is aligned.

Approach

We plan to review the valuation of properties held on the balance sheet at year end against the most current valuation reports, taking into account the date as at which the valuation exercise is performed. We will as a matter of course evaluate the expertise of the preparer of these reports to ensure that they are sufficiently skilled and appropriately qualified such that we can rely on them for the provision of audit evidence.

Significant Risk 2 – Combination Accounting

Risk

Following the combination of Dorset Fire Authority and Wiltshire & Swindon Fire Authority on 1 April 2016, the new Dorset & Wiltshire Fire and Rescue Authority must follow the combination accounting requirements in section 2.5 of the CIPFA Code of Practice on Local Authority Accounting in its first year. The Authority will therefore need to look at including opening balances consisting of the amalgamated numbers of the two preceding authorities as comparatives, and will therefore need to consider re-statement of these through the alignment of accounting policies. This alignment of accounting policies should then be reflected in the Authority's accounts as at 31 March 2017.

Approach

We plan to review management's approach to accounting for the combination, and examine the calculations of opening balances, agreeing the starting point of the numbers to the 2015/16 Statements of Accounts for the demising Dorset Fire Authority and Wiltshire & Swindon Authority, and auditing any combination adjustments to them applied in the formation of these opening balances. We will also consider any additional disclosure requirements in respect of this.

We will review the alignment of accounting policies and consider the impact of any changes from the previous authorities accounting approaches.

Financial statements audit planning (cont.)



Materiality

We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. This therefore involves an assessment of the qualitative and quantitative nature of omissions and misstatements.

Generally, we would not consider differences in opinion in respect of areas of judgement to represent 'misstatements' unless the application of that judgement results in a financial amount falling outside of a range which we consider to be acceptable.

Materiality for planning purposes has been set at £850,000, which equates to 1.5 percent of budgeted 2016/17 gross expenditure.

We design our procedures to detect errors in specific accounts at a lower level of precision.

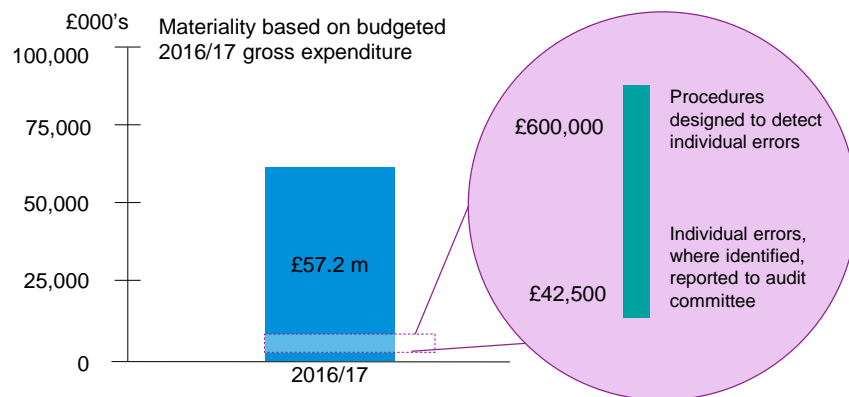
Reporting to the Finance & Audit Committee

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 respective Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260 (UK&I) '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&I) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

We propose that an individual difference could normally be considered to be clearly trivial if it is less than £42,500.

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to Dorset & Wiltshire Fire and Rescue Authority's Finance & Audit Committee to assist them in fulfilling their governance responsibilities.



Value for money arrangements work



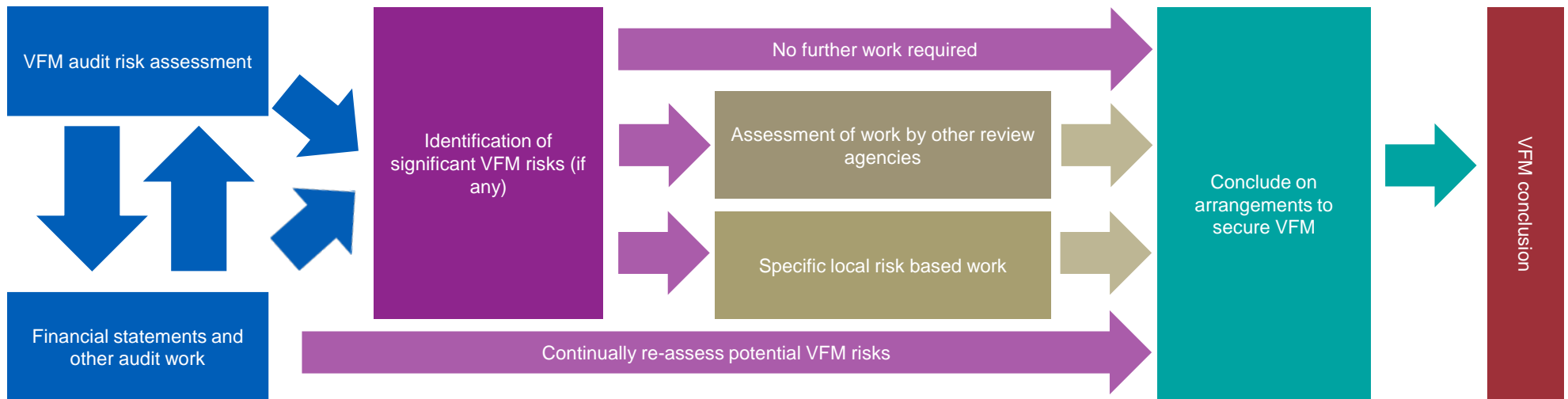
Background to approach to VFM work

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

The VFM approach is fundamentally unchanged from that adopted in 2015/2016 and the process is shown in the diagram below.

Overall criterion
In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.



Value for money arrangements work (cont.)



VFM audit stage	Audit approach
VFM audit risk assessment	<p>We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Authority. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the <i>Code of Audit Practice</i>.</p> <p>In doing so we consider:</p> <ul style="list-style-type: none"> ■ The Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks; ■ Information from the Public Sector Auditor Appointments Limited VFM profile tool; ■ Evidence gained from previous audit work, including the response to that work; and ■ The work of other inspectorates and review agencies.
Linkages with financial statements and other audit work	<p>There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities.</p> <p>We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.</p>
Identification of significant risks	<p>The Code identifies a matter as significant <i>'if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.'</i></p> <p>If we identify significant VFM risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case, including:</p> <ul style="list-style-type: none"> ■ Considering the results of work by the Authority, inspectorates and other review agencies; and ■ Carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Value for money arrangements work (cont.)



VFM audit stage	Audit approach
<p>Assessment of work by other review agencies and Delivery of local risk based work</p>	<p>Depending on the nature of the significant VFM risk identified, we may be able to draw on the work of other inspectorates, review agencies and other relevant bodies to provide us with the necessary evidence to reach our conclusion on the risk.</p> <p>If such evidence is not available, we will instead need to consider what additional work we will be required to undertake to satisfy ourselves that we have reasonable evidence to support the conclusion that we will draw. Such work may include:</p> <ul style="list-style-type: none"> ■ meeting with senior managers across the Authority; ■ review of minutes and internal reports; and ■ examination of financial models for reasonableness, using our own experience and benchmarking data from within and without the sector.
<p>Concluding on VFM arrangements</p>	<p>At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources.</p> <p>If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.</p>
<p>Reporting</p>	<p>We will report on the results of the VFM audit through our ISA 260 Report. This will summarise any specific matters arising, and the basis for our overall conclusion.</p> <p>The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.</p>

Other matters

Whole of government accounts (WGA)

We are required to review your WGA consolidation and undertake the work specified under the approach that is agreed with HM Treasury and the National Audit Office. Deadlines for production of the pack and the specified approach for 2016/17 have not yet been confirmed.

Elector challenge

The Local Audit and Accountability Act 2014 gives electors certain rights. These are:

- the right to inspect the accounts;
- the right to ask the auditor questions about the accounts; and
- the right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on an elector's objection should one arise. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised.

The costs incurred in responding to specific questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the PSAA's fee scales.

Our audit team

Our audit team will be led by Darren Gilbert and managed by David Parson, providing continuity from both the Dorset Fire Authority and Wiltshire & Swindon Fire Authority audits. Appendix 2 provides more details on specific roles and contact details of the team.

Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the respective finance teams and the Finance & Audit Committee. Our communication outputs are included in Appendix 1.

Independence and Objectivity

Auditors are also required to be independent and objective. Appendix 3 provides more details of our confirmation of independence and objectivity.

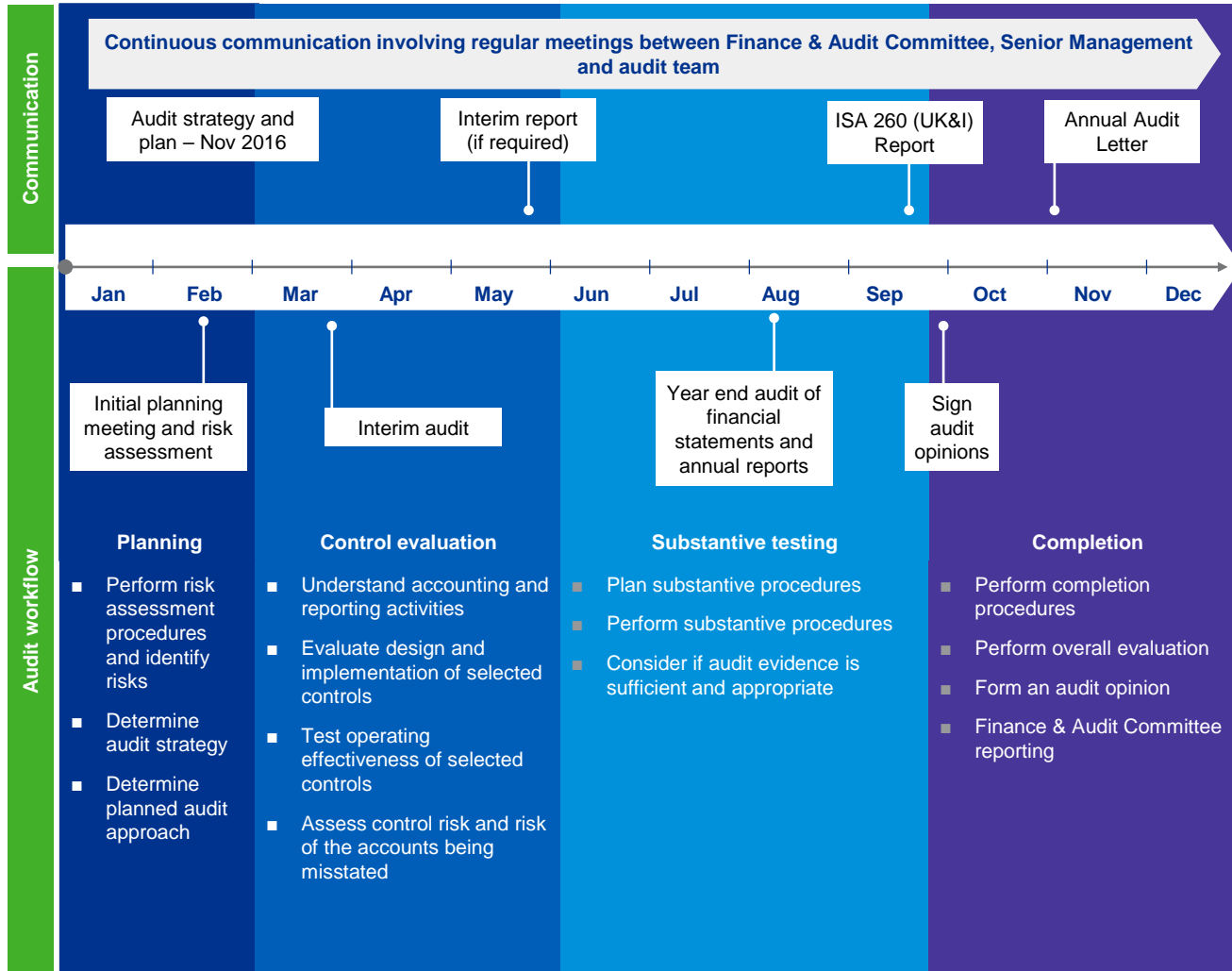
Audit fee

Our Audit Fee Letter 2016/2017 presented to you in September 2016 first set out our fees for the 2016/2017 audit. This letter also set out our assumptions.

The planned audit fee for Dorset & Wiltshire Fire and Rescue Authority for 2016/17 is £45,000. This is a reduction of approximately 15% compared to the total 2015/16 planned audit fees for the two demising authorities of £52,706 (Dorset Fire Authority: £24,378, Wiltshire & Swindon Fire Authority: £28,328).

Our audit fee includes our initial work on the VFM conclusion and our audit of the Authority's financial statements.

Key elements of our financial statements audit approach



Driving more value from the audit through data and analytics

Technology is embedded throughout our audit approach to deliver a high quality audit opinion. Use of Data and Analytics (D&A) to analyse large populations of transactions in order to identify key areas for our audit focus is just one element. We strive to deliver new quality insight into your operations that enhances our and your preparedness and improves your collective 'business intelligence.' Data and Analytics allows us to:

- Obtain greater understanding of your processes, to automatically extract control configurations and to obtain higher levels assurance.
- Focus manual procedures on key areas of risk and on transactional exceptions.
- Identify data patterns and the root cause of issues to increase forward-looking insight.

We anticipate using data and analytics in our work around key areas such as accounts payable and journals. We also expect to provide insights from our analysis of these tranches of data in our reporting to add further value from our audit.



Your audit team has been drawn from our specialist public sector assurance department. Darren, David and Paris were part of the audits for both Dorset Fire Authority and Wiltshire & Swindon Fire Authority last year.



Name	Darren Gilbert
Position	Director
	<p>“My role is to lead our team and ensure the delivery of a high quality, valued added external audit opinion.</p> <p>I will be the main point of contact for the Finance & Audit Committee.”</p>



Name	David Parson
Position	Manager
	<p>“I provide quality assurance for the audit work and specifically any technical accounting and risk areas.</p> <p>I will work closely with Darren to ensure we add value.</p> <p>I will liaise with the Director of Finance and the Finance team.”</p>



Name	Paris Bishop
Position	Audit In-charge
	<p>“I will be responsible for the on-site delivery of our audit work and will supervise the work of our audit assistants.”</p>

Independence and objectivity requirements

Independence and objectivity

Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The standards define 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In the case of Dorset & Wiltshire Fire and Rescue Authority, this is the Finance & Audit Committee.

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standard 1 Integrity, Objectivity and Independence requires us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

Further to this auditors are required by the National Audit Office's Code of Audit Practice to:

- Carry out their work with integrity, independence and objectivity;
- Be transparent and report publicly as required;
- Be professional and proportional in conducting work;
- Be mindful of the activities of inspectorates to prevent duplication;
- Take a constructive and positive approach to their work;
- Comply with data statutory and other relevant requirements relating to the security, transfer, holding, disclosure and disposal of information.

PSAA's Terms of Appointment includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Auditors and senior members of their staff who are directly involved in the management, supervision or delivery of PSAA audit work should not take part in political activity.
- No member or employee of the firm should accept or hold an appointment as a member of an audited body whose auditor is, or is proposed to be, from the same firm. In addition, no member or employee of the firm should accept or hold such appointments at related bodies, such as those linked to the audited body through a strategic partnership.
- Audit staff are expected not to accept appointments as Governors at certain types of schools within the local authority.
- Auditors and their staff should not be employed in any capacity (whether paid or unpaid) by an audited body or other organisation providing services to an audited body whilst being employed by the firm.
- Auditors appointed by the PSAA should not accept engagements which involve commenting on the performance of other PSAA auditors on PSAA work without first consulting PSAA.
- Auditors are expected to comply with the Terms of Appointment policy for the Engagement Lead to be changed on a periodic basis.
- Audit suppliers are required to obtain the PSAA's written approval prior to changing any Engagement Lead in respect of each audited body.
- Certain other staff changes or appointments require positive action to be taken by Firms as set out in the Terms of Appointment.

Confirmation statement

We confirm that as of 8 November 2016 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.



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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website (www.psa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Darren Gilbert, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers, by email to Andrew.Sayers@kpmg.co.uk. After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

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