



Interim Audit Report 2016/17



Dorset & Wiltshire Fire and Rescue Authority

June 2017

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This document summarises the key findings arising from our work to date in relation to the audit of the Authority's 2016/17 financial statements and the 2016/17 VFM conclusion.

Scope of this report

This report summarises the key findings arising from:

- our interim audit work at Dorset & Wiltshire Fire and Rescue Authority ('the Authority') in relation to the Authority's 2016/17 financial statements; and
- our work to support our 2016/17 value for money (VFM) conclusion up to June 2017.

Financial statements

Our *External Audit Plan 2016/17*, presented to you in November 2016, set out the four stages of our financial statements audit process.

During March to April 2017 we completed our planning and control evaluation work. This covered:

- review of the Authority's general control environment, including gaining an understanding of the Authority's IT systems;
- testing of certain controls over the Authority's key financial systems;
- review of relevant internal audit work which we are seeking to rely upon; and
- review of the Authority's accounts production process, including work to address prior year audit recommendations and the specific risk areas we have identified for this year.

VFM conclusion

Our *External Audit Plan 2016/17* explained our risk-based approach to VFM work, which is set out in the Code of Audit Practice and supporting guidance published by the NAO.

We have completed some early work to support our 2016/17 VFM conclusion. This included assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our interim audit work in relation to the 2016/17 financial statements.
- Section 4 outlines our key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1. We have also reviewed your progress in implementing prior recommendations from the former Wiltshire & Swindon and Dorset Fire Authorities and this is detailed in Appendix 2.

Acknowledgements

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



This table summarises the headline messages from our work to date. The remainder of this report provides further details on each area.

Controls over key financial systems	Based on the work of your internal auditors and the work we have performed over key financial systems, we have noted two recommendations, as documented in Appendix 1. Overall, the controls over the key financial systems are effective.
Review of internal audit	Following our assessment of Internal Audit, we were able to place reliance on their work on the key financial systems.
Accounts production	The Authority's overall plans for the preparation of the financial statements are adequate.
VFM risks	<p>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:</p> <ul style="list-style-type: none"> — informed decision making; — sustainable resource deployment; and — working with partners and third parties. <p>We have completed our initial VFM risk assessment and have not identified any key issues. We will update our assessment throughout the year should any issues present themselves and report against these in our ISA260.</p>

Review of internal audit



Following our assessment of Internal Audit, we were able to use their work on the key financial systems to inform our external audit approach.

Background

United Kingdom Public Sector Internal Audit Standards (PSIAS) apply across the whole of the public sector, including local government. These standards are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector. Additional guidance for local authorities is included in the Local Government Application Note on the PSIAS.

Work completed

The scope of the work of your internal auditors and their findings informs our audit risk assessment.

We work with your internal auditors to assess the control framework for certain key financial systems and seek to rely on relevant work they have completed to minimise unnecessary duplication of work. Our audit fee is set on the assumption that we can place full reliance on their work.

Where we intend to rely on internal audit's work in respect of the Authority's key financial systems, auditing standards require us to complete an overall assessment of the internal audit function and to evaluate and test aspects of their work.

The Public Sector Internal Audit Standards define the way in which the internal audit service should undertake its functions.

We reviewed internal audit's work on the key financial systems and used their findings to help inform our external audit approach. We only review internal audit work that has relevance to our audit responsibilities, to effectively scope out other internal audit work from our findings. Our review of internal audit work does not represent an external review against PSIAS, as required at least every five years.

Key findings

Based on the self-assessment performed by internal audit, our assessment of their files, attendance at Finance & Audit Committee and regular meetings during the course of the year, we have not identified any significant issues which would prevent us from relying on internal audit's work for 2016/17 on the key financial systems.

Controls over key financial systems



We have noted two recommendations which have been noted in Appendix 1.

Work completed

We review the outcome of internal audit's work on the financial systems to influence our assessment of the overall control environment, which is a key factor when determining the external audit strategy.

Where we have determined that this is the most efficient audit approach to take, we evaluate the design and implementation of the control and then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Our assessment of a system will not always be in line with your internal auditors' opinion on that system. This is because we are solely interested in whether our audit risks are mitigated through effective controls, i.e. whether the system is likely to produce materially reliable figures for inclusion in the financial statements.

Key findings

Based on the work of your internal auditors and the work we have performed over these systems, we have noted two recommendations and are set out in Appendix 1. These do not however, prevent us from placing reliance on the controls. Overall, the controls over the key financial systems are effective.

We have not yet finished our assessment of the controls over Property, Plant and Equipment. The key controls in respect of this area are operated during the closedown process and our testing will be supplemented by further work during our final accounts visit.

Financial system	Controls Assessment
Property, Plant and Equipment	TBC
Cash and Cash Equivalents	3
Pension Assets and Liabilities	3
Non pay expenditure	3
Payroll	3
General ledger	2

Keys: 1 Significant gaps in the control environment.
2 Deficiencies in respect of individual controls.
3 Generally sound control environment

Accounts production process



The Authority's overall plans for the preparation of the financial statements are adequate.

Accounts production process

We issued our Accounts Audit Plan in November 2016. This important document sets out our audit approach and timetable. We also issued a PBC information request document which summarises the working papers and other evidence we require the Authority to provide to support our audit work.

We discussed our requirements in detail with the finance team and continue to meet with and support them during the financial year end closedown and accounts preparation.

Key findings

The Authority continues to use the well established accounts production process of the former Wiltshire & Swindon Fire Authority. The finance team mainly consists of former employees of the Dorset Fire Authority and Wiltshire & Swindon Fire Authority finance teams and so they have the appropriate knowledge of the process for the first year of the new Authority.

We consider that the overall plans for the preparation of your financial statements are adequate.

Specific audit risk areas



The Authority has a good understanding of the key audit risk areas we identified and is making progress in addressing them.

However, these still present significant challenges that require careful management and focus. We will revisit these areas during our final accounts audit.

Work completed

In our External Audit Plan 2016/17, presented to you in November 2016, we identified the key audit risks affecting the Authority's 2016/17 financial statements.

Our audit strategy and plan remain flexible as risks and issues change throughout the year. To date there have been no changes to the risks previously communicated to you.

We have been discussing these risks with the Finance Director as part of our regular meetings. In addition, we sought to review relevant workings and evidence and agree the accounting treatment as part of our interim work.

Key findings

The Authority has a clear understanding of the risks and is making progress in addressing them. However, these still present significant challenges that require careful management and focus. We will revisit these areas during our final accounts audit.

The table below provides a summary of the work the Authority has completed to date to address these risks.

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

Significant Risk 1

— Property Valuation

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 and 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.

— Preliminary assessment and work undertaken

BNP Paribas will perform a valuation as at the 31st March 2017, valuing 20% of the properties of DWFA (consisting of all the previous Dorset Fire Authority and Wiltshire & Swindon Fire Authority properties).

Specific audit risk areas (cont.)



The Authority has a good understanding of the key audit risk areas we identified and is making progress in addressing them.

However, these still present significant challenges that require careful management and focus. We will revisit these areas during our final accounts audit.

Significant Risk 1 Continued

Properties are split into tranches with 20% being revalued each year, with the full portfolio being revalued over a 5 year period. Remaining properties in any year will be assessed for valuation movements against the representative sample.

BNP Paribas use the estimated value in use (EUV) method to value properties, being the amount that would be paid for the asset in existing use. Where there is no market-based evidence of fair value because of the specialised nature of the asset and it is rarely sold, such as drill towers, the fair value is estimated using a depreciated replacement cost approach (DRC). The DRC approach is used on a minority of items, however, in the previous Dorset Fire Authority the properties were valued using the DRC approach. While both approaches are acceptable under the CIPFA Code, it will mean that the value of the Dorset properties are likely to be significantly lower at the end of 2016/17 than the opening balance of the properties, brought forward from the Dorset system. We will review the revaluation report and the effect of the change in valuation approach for Dorset properties as part of our year end procedures.

Significant Risk 2

— Combination Accounting

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 need to include 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.

— Preliminary assessment and work undertaken

The Authority is taking the 'transfer by absorption' approach in terms of accounting for the combination. This means there will be no restatement of comparatives, but there will be a disclosure note in the accounts which will state the opening balances for the combined Authority. The opening balances being the closing balances of the former Wiltshire & Swindon and Dorset Fire Authorities. Assets and liabilities are to be transferred at carrying amount as at the transfer date and will be adjusted for on the opening balance sheet to achieve uniformity of accounting policies, the double entry being made to the General Fund.

We have reviewed the opening balances before adjustments and as part of our year end procedures will audit the adjustments to align accounting policies, considering the impact of any changes from the previous authorities accounting approaches and any additional disclosure requirements in respect of this.

VFM audit approach



Our VFM conclusion considers how the Authority secures financial resilience and challenges how it secures economy, efficiency and effectiveness.

We follow a risk based approach to target audit effort on the areas of greatest audit risk.

Our *External Audit Plan 2016/17* describes in more detail how the VFM audit approach operates.

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'.

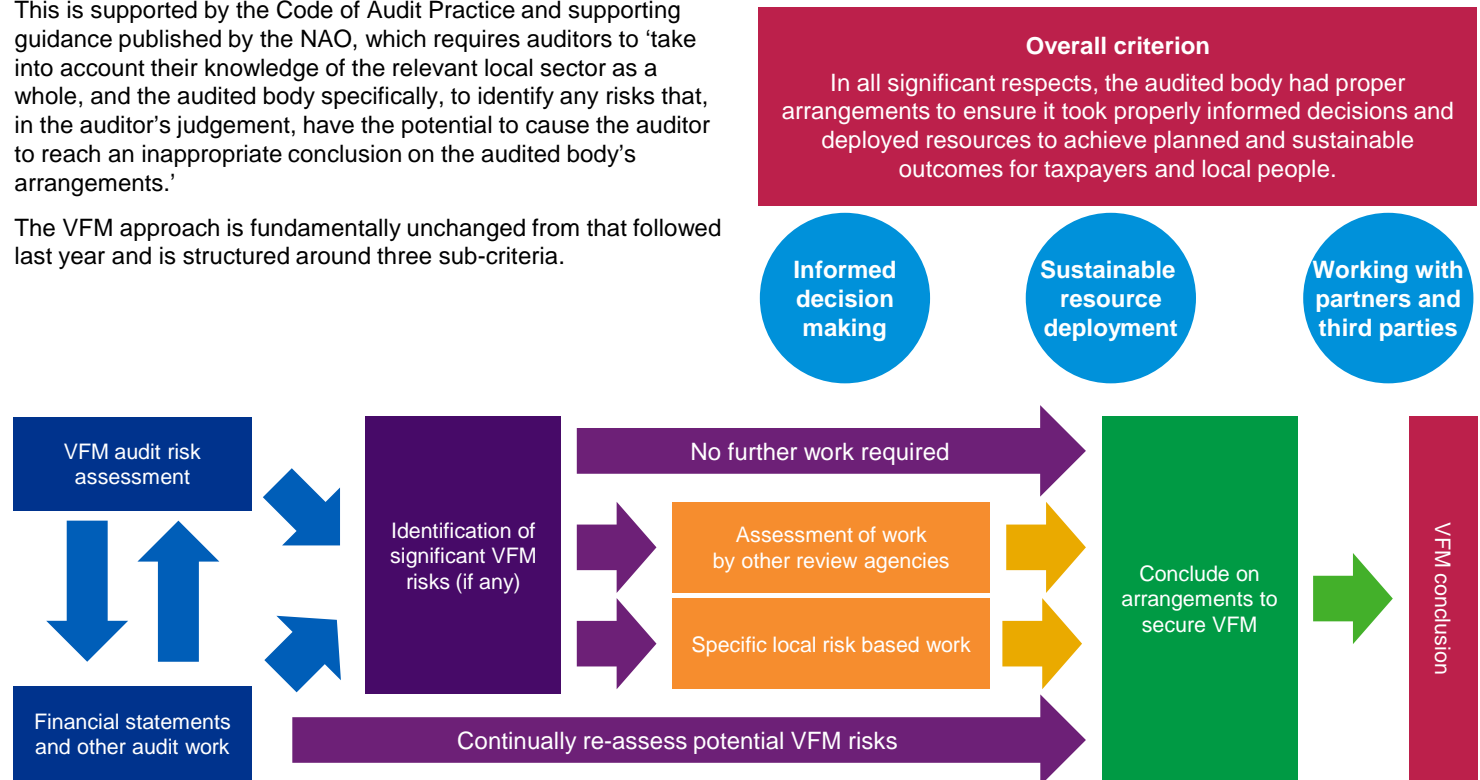
This is supported by the Code of Audit Practice and supporting guidance published by the NAO, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential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

The VFM approach is fundamentally unchanged from that followed last year and is structured around three sub-criteria.

These sub-criteria provide a focus to our VFM work at the Authority.

Overview of the VFM audit approach

The key elements of the VFM audit approach are summarised below.



Specific VFM risks

We have not identified any specific VFM risks through our risk assessment.

Work completed

In line with the risk-based approach set out on the previous page, we have

- Assessed the Authority's key business risks which are relevant to our VFM conclusion;
- Identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit;
- Considered the results of relevant work by the Authority in relation to these risk areas; and
- Concluded to what extent we need to carry out additional risk-based work.

Key findings

We have completed our initial VFM risk assessment and have not identified any significant VFM audit risks requiring further detailed audit work. We will update our assessment throughout the year should any issues present themselves and report against these in our ISA260.

We will report our final conclusions in our *ISA 260 Report 2016/17*.

Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We highlight the importance of these recommendations and recommend that these are implemented as a matter of urgency.

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

Priority rating for recommendations

1 Priority one: Issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.

2 Priority two: Issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.

3 Priority three: Issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
1	3	<p>Review of journals postings</p> <p>The review of journals is performed by a financial accountant also responsible for posting journals, giving rise to the risk of self-review.</p> <p>Segregation of duties</p> <p>Best practice is for journals to be approved or reviewed by a separate individual to the person posting it.</p>	<p>At present we have one post for principal financial accountant (albeit 2 persons jobsharing). The Authority accepts the risk as in a small team it is not considered a significant risk given the knowledge, experience and seniority of the post, and with compensating controls in place substantially mitigating the risk of material errors. This risk will be reviewed annually, and may be reconsidered when the finance team structure changes.</p> <p>Responsible officer: Phil Chow</p> <p>Due date: 31/03/18</p>

Key issues and recommendations (cont.)

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We highlight the importance of these recommendations and recommend that these are implemented as a matter of urgency.

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
2	2	<p>IT System 'super users'</p> <p>Users with privileged access rights ('super users') are a necessary part of running an IT system, the maintenance of configuration settings or creation/deletion of user-accounts requires some element of privileged access.</p> <p>Privileged users within an organisation also have the potential to cause significant issues for both the organisation and our audit. Whether through deliberate action or accidental overriding of safeguards, the access afforded to privileged users can lead to circumventing of controls and other issues. Privileged access rights should therefore only be assigned to users with suitable roles within an organisation such that segregation of duties would reduce these risks. It is therefore unusual for an organisation's finance director (or finance team members) to have privileged access rights.</p> <p>Inappropriately high numbers of personnel who have access to all areas of the finance system could be a potential significant weakness in the design of the system's control environment.</p> <p>At Dorset & Wiltshire Fire and Rescue Authority there are 6 user accounts within the Agresso system set up with a 'system' role account (therefore with privileged access rights), including the Director of Finance, Head of Financial Services and Principal Financial Accountant.</p> <p>Segregation of duties</p> <p>The list of users with privileged access rights should be reviewed to ensure such access rights are limited to users outside of the finance team.</p>	<p>Of the 6 user accounts identified, two superuser accounts were for a Systems Project Officer (on a fixed term contract) employed to migrate and upgrade the Financial Management information System which was absolutely necessary when the work was undertaken, and the systems Manager, i.e. the system expert. The work to migrate and upgrade has now been completed and the project post no longer exists, therefore only 5 superuser accounts are allocated. Of those 5 superuser accounts, two are allocated to one jobshare post, i.e. the Principal Financial Accountant. This effectively means we have 4 superuser accounts at any one time, which is considered appropriate for the size, and geography of the finance function in the new Authority, which is an increase in 1 from the former Service. The superuser accounts provide resilience and flexibility, as we now have three sites where the finance function is carried out, therefore we consider concurrent 4 superuser accounts appropriate.</p> <p>Responsible officer: Phil Chow</p>

Appendix 2

Follow-up of prior year recommendations

The Authority has not implemented all of the recommendations raised through our previous audit work on the former Dorset Fire Authority and Wiltshire & Swindon Fire Authority.

We re-iterate the importance of the outstanding recommendations and recommend that these are implemented as a matter of urgency.

This appendix summarises the progress made to implement the recommendations identified in our ISA 260 Audit Reports 2015/16 for the former Wiltshire & Swindon and Dorset Fire Authorities and re-iterates any recommendations still outstanding.

ISA 260 Audit Report	
Number of recommendations that were:	
Included in original report	4
Implemented in year or superseded	3
Remain outstanding (re-iterated below)	1

No.	Risk	Auth.	Issue and recommendation	Officer responsible and due date	Status as at June 2017
1	3	WSFA	<p>Review of journals postings The review of journals is performed by a financial accountant also responsible for posting journals, giving rise to self-review.</p> <p>Segregation of duties Best practice is for journals to be approved or reviewed by a separate individual to the person posting it.</p>	Phil Chow Due by 31 March 2017	The review of journals is still performed by a financial accountant also responsible for posting journals. Given there is only one Principal Financial Accountant post, journals will often be reviewed by the same individual that has posted them.



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