External audit report 2016/17

Dorset & Wiltshire Fire and Rescue Authority

September 2017

Summary for Finance, Governance and Audit Committee

Financial statements

This document summarises the key findings in relation to our 2016-17 external audit at Dorset & Wiltshire Fire and Rescue Authority ('the Authority'). We previously reported on our interim work in our *External Audit Interim Report 2016/17* in June 2017.

This report focusses on our on-site work which was completed in September 2017 on the Authority's significant risk areas, as well as other areas of your financial statements. Our findings are summarised on pages 6-8.

Our report also includes additional findings in respect of our control work which we have identified since we issued our interim report.

Subject to all outstanding queries being resolved to our satisfaction we anticipate issuing an unqualified audit opinion on the Authority's financial statements on 29 September 2017.

We have identified three audit adjustments with a total value of £5.1 million. See page 24 for details.

Based on our work, we have raised two recommendations., which were identified in our interim report. Details on our recommendations can be found in Appendix 1.

We are now in the completion stage of the audit and anticipate issuing our completion certificate on 29 September 2017 and our Annual Audit letter will follow this.

Use of resources

We have completed our risk-based work to consider whether in all significant respects the Authority has proper arrangements to ensure has taken properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We therefore anticipate issuing an unqualified value for money opinion.

See further details on pages 15-17**.**

Acknowledgements

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

We ask the Finance, Governance and Audit Committee to note this report.

The key contacts in relation to our audit are:

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This report is addressed to Dorset & Wiltshire Fire and Rescue Authority (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. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.psaa.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.

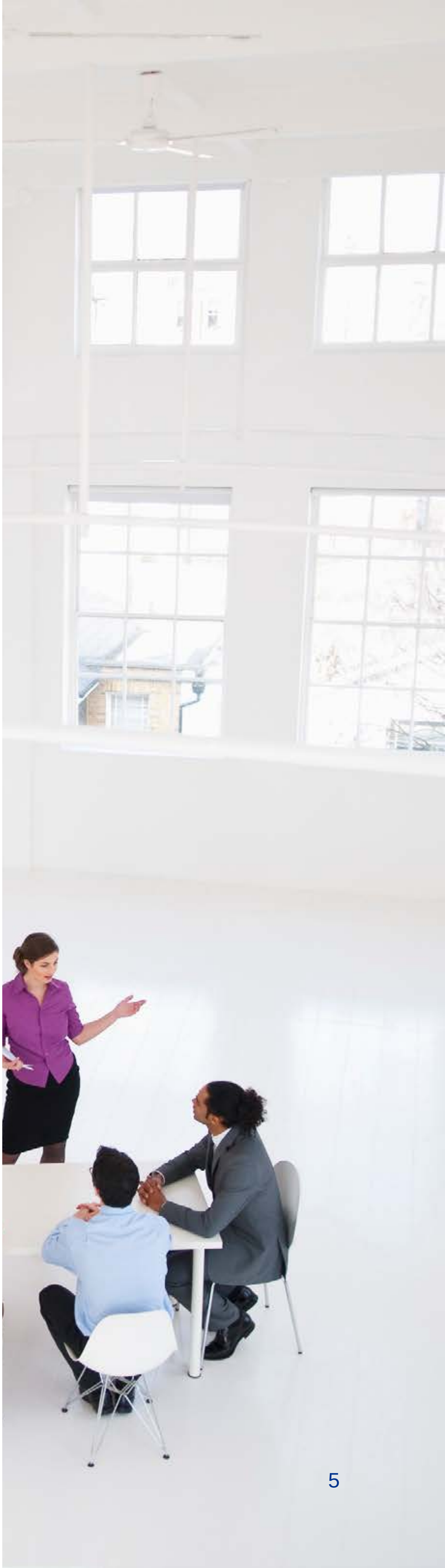
We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Darren Gilbert, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with 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 (on 0207 694 8981, or 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 3H.

Section one

Financial Statements

We anticipate issuing an unqualified audit opinion on the Authority's 2016/17 financial statements on 29 September 2017. We will also report that your Annual Governance Statement complies with the guidance issued by CIPFA/SOLACE (*'Delivering Good Governance in Local Government'*) published in April 2016.

For the year ending 31 March 2017, the Authority has reported an accounting deficit of £10m. The impact of this accounting deficit alone on the General Fund would be a decrease in the General Fund, however adjustments between the accounting basis and funding basis have led to a net increase of £3.8m in the General Fund.



Significant audit risks

Our *External Audit Plan 2016/17* sets out our assessment of the Authority's significant audit risks. We have completed our testing in these areas and set out our evaluation following our work:

Significant audit risks	Work performed
1. Significant changes in the pension liability due to LGPS Triennial Valuation (Authority)	**Why is this a risk?** During the year, the Pension Fund has undergone a triennial valuation with an effective date of 31 March 2016 in line with the Local Government Pension Scheme (Administration) Regulations 2013. The share of pensions assets and liabilities for each admitted body is determined in detail, and a large volume of data is provided to the actuary to support this triennial valuation. There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts. Most of the data is provided to the actuary by Dorset Pension Fund and Wiltshire Pension Fund, who administer the Pension Funds of the previous Dorset Fire Authority and Wiltshire & Swindon Fire Authority employees. This audit risk was not included in our audit plan issued in November 2016, but was subsequently identified as a significant risk through our detailed risk assessment processes. **Our work to address this risk** We have reviewed the process used to submit payroll data to the Pension Fund and have found no issues. We have also substantively agreed the total figures submitted to the actuary to the general ledger with no issues noted. We critically assessed the assumptions used in the pension valuation at 31 March 2017 to determine whether they were appropriate. No significant issues were noted in respect to the assumptions used. See page 9 for our assessment on the assumptions used by the actuary in the IAS19 report.
2. Property Valuation	**Why is this a 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. 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. Dorset & Wiltshire Fire and Rescue Authority's (DWFRA) property asset portfolio is to be revalued over the course of five years, with 20% of properties being valued each year and a desktop review performed of the remaining properties not valued in the year. The previous authorities had adopted differing valuation approaches, with Wiltshire & Swindon Fire Authority (WSFA) holding its property assets at Existing Use Value (EUV), while Dorset Fire Authority (DFA) held its property at Depreciated Replacement Cost (DRC). The new authority has adopted a consistent valuation accounting policy across its entire property portfolio, which has led to a significant decrease in carrying amount for the DFA half of its adopted estate, where the valuation methodology has changed from DRC to EUV. This movement due to accounting policy alignment has been reflected in the opening balances. **Our work to address this risk** We have reviewed BNP Paribas' full valuation of the DFA property portfolio as at 31 March 2016 (to align the accounting policy for the opening balance sheet of the new Authority) and their valuation as at 31 March 2017, valuing 20% of the DWFRA properties (consisting of all the previous DFA and WSFA properties). The properties were split into 5 tranches, with properties allocated evenly across the tranches based on location and size. This approach ensures all properties are revalued over five years. We have reviewed the approach and assumptions used by BNP, evaluated the competence and expertise of the valuation team and agreed the authority's records to BNP's valuation reports.

Significant audit opinion risks	Work performed
3. Combination Accounting	**Why is this a 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 needs to report opening balances consisting of the amalgamated closing numbers of the two preceding authorities, and will therefore needed to re-state these through the alignment of accounting policies, reflected in the Authority's accounts as at 31 March 2017. **Our work to address this risk** The Authority has taken the transfer by absorption approach in terms of accounting for the combination. This has meant no restatement of comparatives, but a disclosure note in the accounts reporting the opening balances for the combined Authority. Assets and liabilities were transferred at carrying amount as at the transfer date and have been adjusted for on the opening balance sheet to achieve uniformity of accounting policies. We have reviewed the opening balances agreeing these to the closing balances of the former Authorities and have then reviewed and tested the adjustments to align accounting policies and eliminations of balances between the former Authorities. We conclude that the adjustments to align accounting policy's have been calculated appropriately, however we raised an adjustment as to the point at which the entries are made to ensure all adjustments have been made prior to the opening balance amounts being stated. Details of this adjustment can be found in Appendix 3. We have reviewed the disclosures made in respect of the combination accounting and concluded that the disclosures meet requirements.

Fraud risk of revenue recognition

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

In our *External Audit Plan 2016/17* we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.

This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.

Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of 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. We have not identified any specific additional risks of management override relating to this audit.

In line with our methodology, we carried 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.

There are no matters arising from this work that we need to bring to your attention.

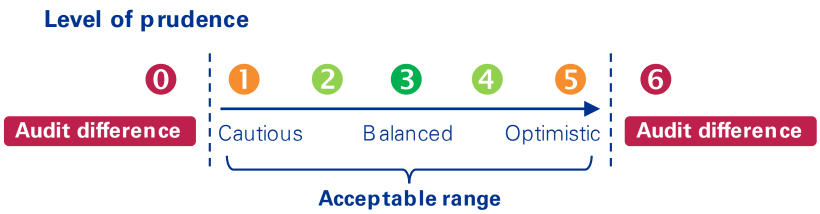
Other areas of audit focus

We identified one area of audit focus. This is not considered to be a significant audit risk as it is less likely to give rise to a material error. Nonetheless it is an important area where we carry out substantive audit procedures to ensure that there is no risk of material misstatement.

Other areas of audit focus	Our work to address the areas
1. Disclosures associated with retrospective restatement of CIES, EFA and MiRS	**Background** CIPFA has introduced changes to the 2016/17 Local Government Accounting Code (Code): — Allowing local authorities to report on the same basis as they are organised by removing the requirement for the Service Reporting Code of Practice (SeRCOP) to be applied to the Comprehensive Income and Expenditure Statement (CIES); and — Introducing an Expenditure and Funding Analysis (EFA) which provides a direct reconciliation between the way local authorities are funded and prepare their budget and the CIES. This analysis is supported by a streamlined Movement in Reserves Statement (MiRS) and replaces the current segmental reporting note. New disclosure requirements and restatement of accounts require compliance with relevant guidance and correct application of applicable accounting standards. The Authority was required to make a retrospective restatement of its CIES (cost of services) and the MiRS. However, as part of the accounting for the new Dorset & Wiltshire Fire and Rescue Authority, the transfer by absorption approach was adopted which has meant no restatement of comparatives, but a disclosure note in the accounts stating the opening balances for the combined Authority. **What we have done** We have reviewed the EFA and tested the adjustments made between how the expenditure is used and funded from resources by the Authority and how those resources are consumed or earned by the Authority in accordance with generally accepted accounting practices. We conclude that the adjustments have been calculated appropriately and the disclosure meets requirements. We have also reviewed the disclosures made in respect of the CIES and MiRS and conclude that these also meet requirements.

Judgements

We have considered the level of prudence within key judgements in your 2016/17 financial statements and accounting estimates. We have set out our view below across the following range of judgements.



Subjective areas	2016/17	Commentary
Provisions (excluding NDR)	3	Rationale for assessing provisions on individual basis appears reasonable as the provision is derived by the recommendation of the in-house legal team, and is not indicative of an overly cautious or optimistic approach.
NDR provisions	3	Since 2013/14, local authority funding arrangements have meant that the Authority is now responsible for a proportion of successful business rate appeals. The Authority has an allocated 1% share of the provisions made by the billing authorities for appeals against rating valuations, the calculations for which we have reviewed and are deemed reasonable. Consequently, we assess this to be balanced.
Pension liability	3	Includes a number of judgement areas: discount rate, inflation, salary growth and life expectancy. These have been advised by the actuary. As part of our work we rely on a review of actuarial assumptions performed by PwC (the National Audit Office commissions this review on behalf of all audit firms in the sector). PwC identified that the discount rate assumption was slightly above their expected range, resulting in a more cautious view and inflation assumptions were below their expected range, resulting in a more optimistic view. Given these findings, we consulted with our KPMG actuarial specialists and it was concluded that while the discount rate assumption and inflation assumption were within our actuarial specialists expected ranges, they were towards the extremes of these ranges, though at opposite ends of the prudence spectrum. When evaluating the aggregate impact of these two assumptions on the discount rate, the net discount rate is more clearly within our expected range, therefore we assess the net judgement as more balanced.
Property, Plant and Equipment (valuations / asset lives)	3	The Authority has utilised external valuation expert, BNP Paribas, to provide valuation estimates. We have reviewed the instructions provided and deem that the valuation exercise is in line with the instructions. The timing of the revaluation process being performed was at the balance sheet date. We have assessed the valuation methodology used, Existing Use Value (based on current market values of similar properties), which we consider to be acceptable under the CIPFA Code, and assessed the key assumptions for reasonableness. Consequently, we assess this to be balanced.

Proposed opinion and audit differences

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's 2016/17 financial statements following approval of the Statement of Accounts by the Finance, Governance and Audit Committee on 29 September 2017.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final materiality level for this year's audit was set at £850,000 (see Appendix 4). Audit differences below £42,500 are not considered significant.

Our audit identified a total of three significant audit differences, which we set out in Appendix 3. These have been adjusted in the final version of the financial statements.

The tables on the right illustrate the total impact of audit differences on the Authority's movements on the General Fund for the year and balance sheet as at 31 March 2017.

There is nil net impact on the General Fund as a result of audit adjustments. The significant audit difference identified are:

- The revaluation reserve on the opening balance sheet was written off to the capital adjustment account by its full £4.7m. This was because the net book value of properties brought forward from the former authorities was treated as 'deemed cost', it was therefore not reasonable to have a revaluation reserve balance in respect of them. This has resulted in reduction in both the opening and closing revaluation reserve of £4.7m.
- Following the opening balance sheet revaluation reserve being set to nil any valuation losses of properties in the year could no longer be offset against gains in the revaluation reserve. A loss of £0.1m was therefore debited to the CIES instead.
- In the Actuary's report on the valuation of the pension liability, employer contributions are estimated using a projected percentage of payroll contributions, so this will differ to the actual contributions. This £0.2m difference had been reflected in the draft DWFRA accounts within employee costs in order to ensure that the net pension liability and pension reserve equalled the balance stated in the actuary report. Due to its nature, this £0.2m difference has been adjusted from employee costs to actuarial gains/losses resulting from changes in financial assumptions, in other comprehensive income & expenditure.

Movements on the General Fund and Earmarked Reserves 2016/17

£'000	Pre-audit £'000	Post-audit £'000	*Ref*[1]
Deficit on the provision of services	10,029	10,337	*2&3*
Other Comprehensive Income and Expenditure	-	-	
Adjustments between accounting basis and funding basis under Regulations	(13,818)	(14,126)	1& page 11
Transfers to earmarked reserves	16	16	
(Increase)/Decrease in General Fund	**(3,773)**	**(3,773)**	

Balance sheet as at 31 March 2017

£m	Pre-audit £'000	Post-audit £'000	*Ref*[1]
Property, plant and equipment	40,864	40,864	
Other long term assets	1,000	1,000	
Current assets	21,914	21,914	
Current liabilities	(8,066)	(8,066)	
Long term liabilities	(588,316)	(588,316)	
Net worth	**(532,604)**	**(532,604)**	
General Fund	10,124	10,124	
Other usable reserves	17,477	17,477	
Unusable reserves	(560,205)	(560,205)	1
Total reserves	**(532,604)**	**(532,604)**	

[1] See referenced adjustments in Appendix 3.

Presentation adjustments identified

- DWFRA identified that the actuarial gains/ losses had incorrectly been credited to Other Comprehensive Income and Expenditure rather than debited. The entries made to the pension liability and reserve were correct, this is therefore an accounts presentation adjustment only.
- It was also identified that originally within the Movement in Reserves Statement the Movement in Pension Reserve line had an entry of -£70m within the General Fund column, this amount was then reversed out in the line Retirement Benefits under IAS19. These lines were corrected so that the Movement in the Pension Reserve is included in the unusable reserve column only. Therefore the reversal line Retirement Benefits under IAS19 no longer includes the Movement in Pension Reserve.
- Losses related to the opening balance sheet of £4.5m had been incorrectly included in the Movement in Reserves Statement, these were reversed out.

In addition, we identified a small number of minor presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 ('the Code'). We understand that the Authority will be addressing these where significant.

Annual governance statement

We have reviewed the Authority's 2016/17 Annual Governance Statement and confirmed that:

- It complies with *Delivering Good Governance in Local Government: A Framework published by CIPFA/SOLACE*; and
- It is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

Narrative report

We have reviewed the Authority's 2016/17 narrative report and have confirmed that it is consistent with the financial statements and our understanding of the Authority.

Accounts production and audit process

Our audit standards (*ISA 260*) require us to communicate our views on the significant qualitative aspects of the Authority's accounting practices and financial reporting.

We also assessed the Authority's process for preparing the accounts and its support for an efficient audit. The efficient production of the financial statements and good-quality working papers are critical to meeting the tighter deadlines.

Accounting practices and financial reporting

The Authority has recognised the additional pressures which the earlier closedown in 2017/18 will bring. We have been engaging with the Authority in the period leading up to the year end in order to proactively address issues as they emerge.

We consider the Authority's accounting practices appropriate.

Completeness of draft accounts

We received a complete set of draft accounts on 30 June 2017, which is the statutory deadline.

Quality of supporting working papers

We issued our *Audit Plan 2016/17* in November 2016 which outlined the stages of our financial statement audit process. This helps the Authority to provide audit evidence in line with our expectations.

We worked with management to ensure that working paper requirements are understood and aligned to our expectations. We are pleased to report that this has resulted in good-quality working papers with clear audit trails.

Response to audit queries

Officers dealt with most of our audit queries within planned timescales.

Evidence relating to some areas of testing took longer to be provided, such as data summaries provided to the actuary. This raises concerns over the Authority's ability to meet the early statutory deadlines in 2017/18.

Additional findings in relation to the Authority's control environment for key financial systems

In our *External Audit Interim Report 2016/17* tabled in June 2017, we reported that there were year end controls over property, plant and Equipment that we will be testing during our year end audit.

We have since completed the testing of these controls. Based on the work performed, we are satisfied that the controls are performing effectively. We are able to place reliance on the Authority's control framework.

Prior year recommendations

As part of our audit we have specifically followed up the Authority's progress in addressing the recommendations in last years ISA 260 reports.

The Authority has implemented the majority of the recommendations in our ISA 260 Reports for 2015/16.

Appendix 2 provides further details.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's 2016/17 financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of Dorset & Wiltshire Fire and Rescue Authority for the year ending 31 March 2017, we confirm that there were no relationships between KPMG LLP and Dorset & Wiltshire Fire and Rescue Authority, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 5 in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to Phil Chow for presentation to the Finance, Governance and Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

— Significant difficulties encountered during the audit;

— Significant matters arising from the audit that were discussed, or subject to correspondence with management;

— Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and

— Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc.).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the former Dorset Fire Authority and Wiltshire & Swindon Fire Authority's 2015/16 financial statements.

Section two

Value for money

Our 2016/17 VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We have concluded that the Authority has made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

VFM conclusion

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.'

Our VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

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

1 Identification of significant VFM risks (if any)

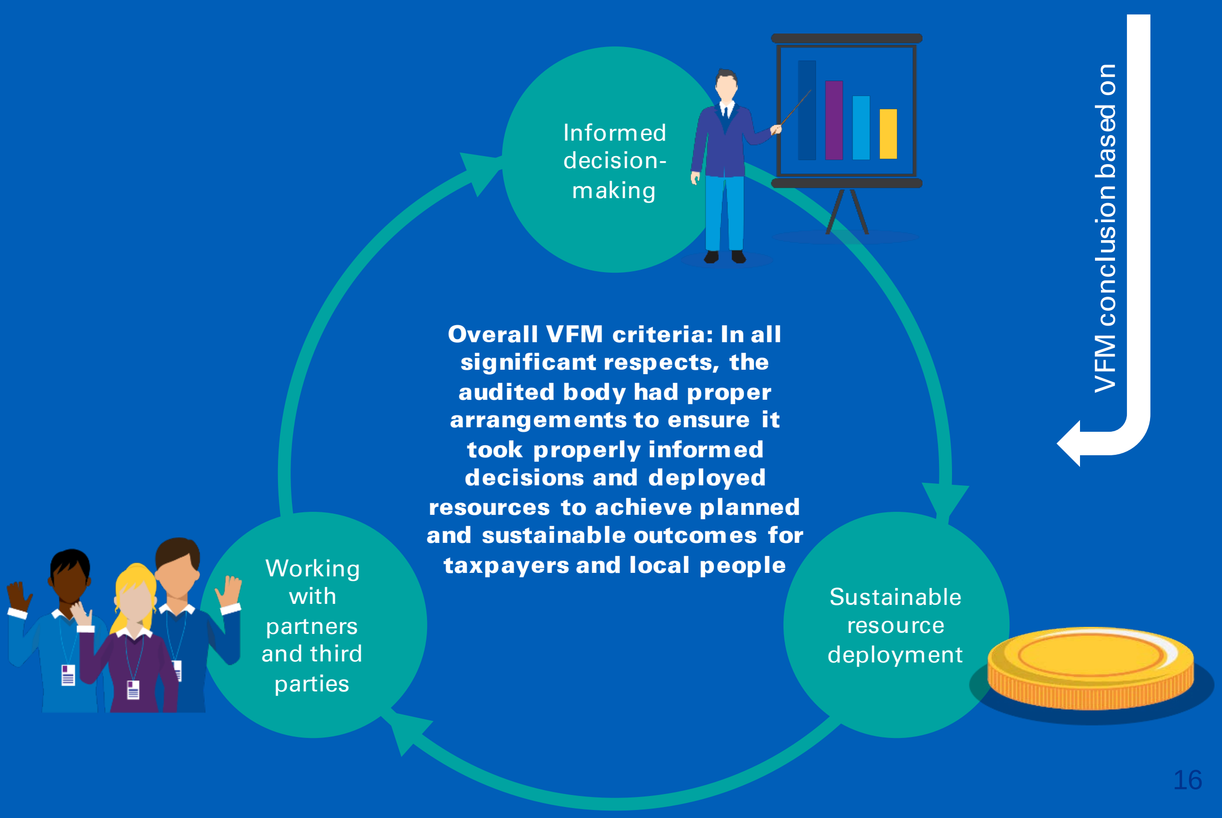
- VFM audit risk assessment
- Financial statements and other audit work

2 Continually re-assess potential VFM risks

- Assessment of work by other review agencies
- Specific local risk-based work

3 VFM conclusion

- **Conclude on arrangements to secure VFM**



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

Summary of our work

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; and
- considered the results of relevant work by the Authority in relation to these risk areas.

As part of our VFM work we have reviewed the Medium Term Financial Plan (MTFP). The MTFP, budget and financial position of the Authority is discussed regularly in Committee meetings where they are monitored and scrutinized. Discussions were held with key finance staff in order to develop our understanding of the processes and methods in place for producing budgets going forward and identifying areas of potential cost cutting. The Authority applied to the Government for four-year funding allocations, on submission of its Efficiency Plan which was subsequently accepted by the Government. Like other local government bodies, the Authority faces challenges in the future driven by funding reductions and an increase in demand for services. The combination has put Dorset & Wiltshire Fire and Rescue Authority in an improved position to face these challenges as illustrated in the Medium Term Financial Plan (MTFP) of the Authority.

The strategic risk register was also reviewed. Risks are being managed within the planning, performance and risk management system, SYCLE. All risks are scored using the agreed risk appetite matrix and risks identified as scoring 15 and above are classified at strategic level. Strategic risks are reviewed by the Authority on a monthly basis and identified no significant VFM risk from our review.

Review of the Corporate Governance Policy for 2016/17 evidenced that there were no significant governance issues of major concern from a VFM perspective, and the issues and concerns identified are being managed through action plans and the risk register.

While the VFM profile for the first year of the Authority was not yet available, we reviewed the VFM profiles of the former Authorities and comparison of cost bases with those of other Authorities did not identify any additional VFM risks.

We have concluded that in 2016/17, the Authority has made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Appendices

Key issues and recommendations

Our audit work on the Authority's 2016/17 financial statements have identified two issues. These are listed in this appendix together with our recommendations which we have agreed with Management. We have also included Management's responses to these recommendations.

The Authority should closely monitor progress in addressing the risks, including the implementation of our recommendations. We will formally follow up these recommendations next year.

Each issue and recommendation have been given a priority rating, which is explained below.

High priority — 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.

Medium priority — 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.

Low priority — Issues that would, if corrected, improve internal control in general but are not vital to the overall system. These are generally issues of good practice that we feel would benefit if introduced.

The following is a summary of the issues and recommendations raised in the year 2016/17.

2016/17 recommendations summary

Priority	Number raised in our interim report	Number raised from our year-end audit	Total raised for 2016/17
High	0	0	**0**
Medium	1	0	**1**
Low	1	0	**1**
Total	**2**	**0**	**2**

Low priority

1. Review of journals postings

The review of journals is performed by a financial accountant also responsible for posting journals, giving rise to the risk of self-review.

Recommendation

Best practice is for journals to be approved or reviewed by a separate individual to the person posting it.

Management Response

At present we have one post for principal financial accountant (albeit 2 persons job sharing). 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.

Owner

Phil Chow

Deadline

31/03/2018

Medium priority

2. IT System 'super users'

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.

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.

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.

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.

Recommendation

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.

Management Response

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 job share post, i.e. the Principal Financial Accountant. This effectively means we have 4 superuser accounts at any one time. One of these accounts belongs to the Finance Director and we have agreed to amend the access rights for this account so the account is no longer a superuser account. This leaves 3 superuser accounts, which is considered appropriate for the size, and geography of the finance function in the new Authority, The superuser accounts provide resilience and flexibility, as we now have three sites where the finance function is carried out, therefore we consider concurrent 3 superuser accounts appropriate.

Owner

Phil Chow

Deadline

31/03/2018

Follow-up of prior year recommendations

In the previous year, we raised four recommendations which we reported in our *External Audit Reports 2015/16 (ISA 260) for the former Dorset Fire Authority and Wiltshire & Swindon Fire Authority*. The Authority has implemented the majority of the recommendations. We re-iterate the importance of the outstanding recommendation and recommend that these are implemented by the Authority.

We have used the same rating system as explained in Appendix 1.

Each recommendation is assessed during our 2016/17 work, and we have obtained the recommendation's status to date. We have also obtained Management's assessment of each outstanding recommendation.

Below is a summary of the prior year's recommendations.

2015/16 recommendations status summary

Priority	Number raised	Number implemented / superseded	Number outstanding
High	0	0	**0**
Medium	1	1	**0**
Low	3	2	**1**
Total	**4**	**3**	**1**

Medium priority

1. Revaluation of Assets

Former Dorset Fire Authority: The valuation process of assets is performed to be effective as at the start of the year, thus the asset values may have moved significantly by year end.

Recommendation

Undertake property asset valuations as close as possible to year end to reduce the risk of material misstatement.

Management original response

The approach taken for valuation of assets will be reviewed for the new Dorset & Wiltshire Fire and Rescue Authority, applicable as from the 2016/17 financial year.

Owner

Sue Harries, Estates Officer

Original deadline

During 2016/17

KPMG's September 2017 assessment

Fully implemented

The valuation of assets for the new Dorset & Wiltshire Fire Authority was performed as at 31 March 2017, which reduces the risk of material misstatement.

Priority	Issue and recommendation	Management response and KPMG assessment
Low priority	**2. Timely review of bank reconciliations** Former Dorset Fire Authority: There were two instances where bank account reconciliations had been prepared, but were not reviewed until two months later. **Recommendation** Review bank reconciliations as close to when they were prepared as possible. This will reduce the risk of reconciling items not being identified and investigated in a timely manner.	**Management original response** Bank reconciliations are completed on a weekly basis and issues cleared as they arise. The approval delay was a result of staff absence on long-term sickness, along with pressures of other work. Procedures used by Dorset & Wiltshire Fire and Rescue Authority will apply in future. *Owner* Finance team of Dorset & Wiltshire Fire and Rescue Authority. **KPMG's September 2017 assessment** Fully implemented Bank reconciliations are performed on a monthly basis. We identified that the bank reconciliations had been reviewed close to when they had been prepared reducing the risk of reconciling items not being identified and investigated in a timely manner.
Low priority	**3. Evidence of bank reconciliations reviews is consistent** Former Dorset Fire Authority: Bank reconciliations contain two spreadsheets which should be signed once reviewed. There were a couple of instances where only one of the spreadsheets was signed as reviewed. **Recommendation** Ensure both reconciliation sheets are signed once reviewed. This will provide evidence that a full review has been conducted.	**Management original response** Noted. Procedures used by Dorset & Wiltshire Fire and Rescue Authority will apply in future. *Owner* Finance team of Dorset & Wiltshire Fire and Rescue Authority. **KPMG's September 2017 assessment** Fully implemented Bank reconciliation summarised on one reconciliation sheet under Dorset & Wiltshire Fire and Rescue Authority. This is then reviewed and signed, providing evidence that a full review was conducted.

Low priority

4. Review of journals postings

Former Wiltshire & Swindon Fire Authority: The review of journals is performed by a financial accountant also responsible for posting journals, giving rise to self-review.

Recommendation

Best practice is for journals to be approved or reviewed by a separate individual to the person posting it.

Management original response

We understand best practice is to have segregation of duties as an important control measure. However, this is sometimes not possible or practical give the finance team is small where we only have one qualified Principal Financial Accountant post. There are other control measures in place, i.e. regular reconciliations, budget management responsibilities and procedures in place, which would compensate.

KPMG's September 2017 assessment

Not implemented

Recommendation outstanding, we have raised the recommendation within our current year recommendations.

Management's July 2017 response

See Appendix 1 for management's response.

Appendix 3

Audit differences

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Finance, Governance and Audit Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

A number of minor amendments focused on presentational improvements have also been made to the 2016/17 draft financial statements. The Finance team is committed to continuous improvement in the quality of the financial statements submitted for audit in future years.

Adjusted audit differences

The following table sets out the significant audit differences identified by our audit of Dorset & Wiltshire Fire and Rescue Authority's financial statements for the year ended 31 March 2017. It is our understanding that these will be adjusted. However, we have not yet received a revised set of financial statements to confirm this.

Table 1: Adjusted audit differences

No.	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Basis of audit difference
1					Opening Balance Sheet Dr Revaluation Reserve £4,743,676 Cr Capital Adjustment Account £4,743,676	Opening balance sheet adjustment to write off the revaluation reserve brought forward from the former Dorset Fire Authority and Wiltshire & Swindon Fire Authority, to the capital adjustment account.
2	Cr Capital Finance Costs (valuation loss) £124,649				Dr Revaluation Reserve £124,649	With the opening revaluation reserve reset to nil, any revaluation losses in the year are to be taken to the income and expenditure statement rather than the revaluation reserve as the new Authority would have no previous revaluation gains with which to offset in-year revaluation losses.
3	Dr Employee costs £183,449 Cr Other CIES actuarial (gains)/ losses on pensions £183,449					Reclassification of employer contribution adjustment to actuarial gains/losses from changes in financial assumptions.
	Cr £124,649	**£0**	**£0**	**£0**	**Dr £124,649**	**Total impact of adjustments**

Appendix 4

Materiality and reporting of audit differences

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.

Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.

Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our External Audit Plan 2016/17, presented to you in June 2017.

Materiality for the Authority's accounts was set at £850,000 which equates to around 1.49 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Finance, Governance and 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 Finance, Governance and Audit Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under *ISA 260*, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. *ISA 260* defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £42,500 for the Authority.

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

Appendix 5

Declaration of independence and objectivity

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice (the 'Code') which states that:

> *"The auditor should carry out their work with integrity, objectivity and independence, and in accordance with the ethical framework applicable to auditors, including the ethical standards for auditors set by the Financial Reporting Council, and any additional requirements set out by the auditor's recognised supervisory body, or any other body charged with oversight of the auditor's independence. The auditor should be, and should be seen to be, impartial and independent. Accordingly, the auditor should not carry out any other work for an audited body if that work would impair their independence in carrying out any of their statutory duties, or might reasonably be perceived as doing so."*

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Public Sector Audit Appointments Ltd Terms of Appointment ('Public Sector Audit Appointments Ltd Guidance') and the requirements of APB Ethical Standard 1 Integrity, Objectivity and Independence ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Public Sector Audit Appointments Ltd guidance requires appointed auditors to follow the provisions of *ISA (UK&I) 260 'Communication of Audit Matters with Those Charged with Governance'* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

— Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.

— The related safeguards that are in place.

— The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our Annual Audit Letter.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from this. These matters should be discussed with the Finance, Governance and Audit Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP Audit Partners and staff annually confirm their compliance with our Ethics and Independence Manual including in particular that they have no prohibited shareholdings.

Our Ethics and Independence Manual is fully consistent with the requirements of the Ethical Standards issued by the UK Auditing Practices Board. As a result we have underlying safeguards in place to maintain independence through: Instilling professional values, Communications, Internal accountability, Risk management and Independent reviews.

We would be happy to discuss any of these aspects of our procedures in more detail.

Auditor declaration

In relation to the audit of the financial statements of Dorset & Wiltshire Fire and Rescue Authority for the financial year ending 31 March 2017, we confirm that there were no relationships between KPMG LLP and Dorset & Wiltshire Fire and Rescue Authority, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

Audit fees

Audit fees

As communicated to you in our External Audit Plan 2016/17, our scale fee for the audit is £45,000 plus VAT *in 2016/17*, which is a reduction of approximately 15% compared to the total 2016/17 audit fees for the two demising authorities of £52,706 (Dorset Fire Authority: £24,378, Wiltshire & Swindon Fire Authority: £28,328). See table below for further detail.

PSAA fee table			
Component of audit	**Dorset & Wiltshire Fire and Rescue Authority 2016/17** *(actual fee)* £	**Former Dorset Fire Authority 2015/16** *(actual fee)* £	**Former Wiltshire & Swindon Fire Authority 2015/16** *(actual fee)* £
Accounts opinion and use of resources work			
Audit fee	45,000	24,378	28,328
Total fee for the Authority	**45,000**	**24,378**	**28,328**

All fees are quoted exclusive of VAT.