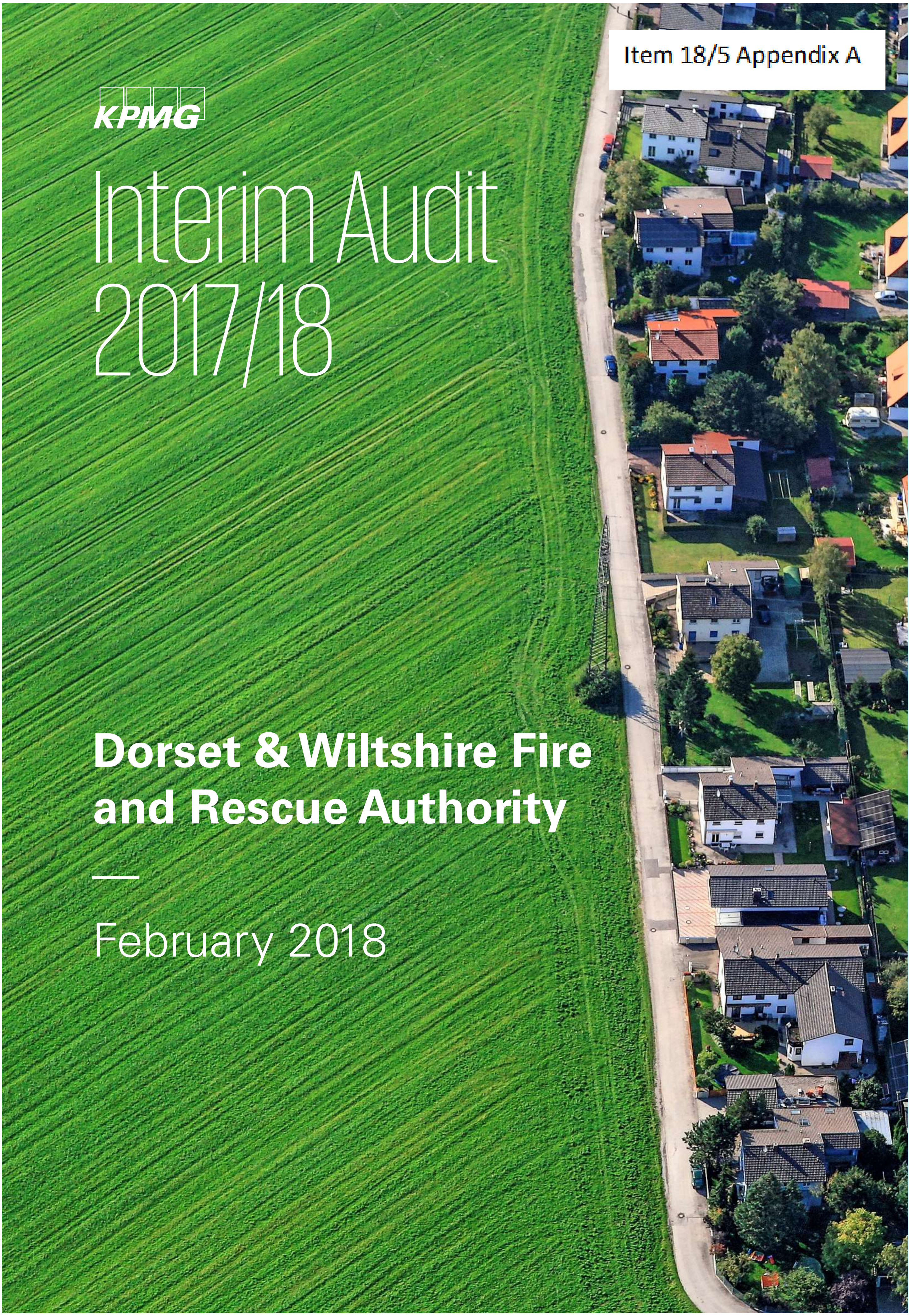
Item 18/5 Appendix A

KPMG

Interim Audit 2017/18



Dorset & Wiltshire Fire and Rescue Authority

February 2018

Introduction

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 2017/18 financial statements, and

— our work to support our 2017/18 value for money (VFM) conclusion up to February 2017.

Financial Statements Audit

Our *External Audit Plan 2017/18*, presented to you in November 2017, set out the four stages of our financial statements audit process.

During February 2018 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 to inform our risk assessment; 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.

Value for Money Arrangements Work

Our *External Audit Plan 2017/18* explained our risk-based approach to Value For Money (VFM) work, which is set out in the Code of Audit Practice and supporting guidance published by the National Audit Office (NAO). We have completed some early work to support our 2017/18 VFM conclusion. This included:

— assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion;

— considering the results of any relevant work by the Authority, inspectorates and other review agencies in relation to these risk areas; and

— identifying what additional risk-based work we will need to complete.

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 and detailed our initial risk assessment.

Organisational and IT control environment

Your organisational control environment is effective overall.

Work completed

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit. We obtain an understanding of the Authority's overall control environment and determine if appropriate controls have been implemented. We do not complete detailed testing of these controls.

Key findings

We consider that your organisational control environment is appropriate and have no issues to bring to your attention.

Aspect of controls	Assessment
Organisational controls:	
Management's philosophy and operating style	3
Culture of honesty and ethical behaviour	3
Oversight by those charged with governance	3
Risk assessment process	3
Communications	3
Monitoring of controls	3

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

Controls over key financial systems

The controls over the majority of the key financial systems are sound.

Although as reported last year there remains scope to strengthen the controls over journals by enhancing the segregation of duties.

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 our work, and the work of your internal auditors, we have determined that the controls over the majority of the key financial systems are sound.

We noted one weaknesses in respect of individual financial systems that will impact on our audit:

— Weakness 1: Lack of Segregation of Duty in review of journals. There is no control in place for journals to be approved and therefore as a compensating control, the Principal Financial Accountant reviews the monthly journal report, however this mitigating control can involve the Principal Financial Accountant reviewing journals that they have posted. Therefore this creates a self-review risk and dilutes the segregation of duty.

We have reported this control weakness previously and the Authority's response has been to accept the risk and not make any changes to its control environment. Our view remains that this area should be strengthened and hence we have repeated a recommendation on this matter in Appendix 1. We are unable to rely on this control for our audit, although this can be addressed through the approach we take to substantive testing of journals entries when we perform our final audit

We have not yet assessed 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.

Aspect of 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

Key	
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 process for the preparation of the financial statements is adequate.

At the time of our interim visit the Authority has implemented one recommendation from last year's audit, and for the other we have repeated our recommendation

Accounts production process

We issued our Accounts Audit Protocol in November 2017. This important document sets out our audit approach and timetable. It also summarises the working papers and other evidence we require the Authority to provide to support our audit work.

We continued to meet with the finance team on a regular basis to support them during the financial year end closedown and accounts preparation.

Key findings

We consider that the overall process for the preparation of your financial statements is adequate. We note, however, that the deadlines for both producing draft accounts and publishing the final audited accounts have been advanced for this year and that this may present additional challenges (further details are included on page 7).

We raised two recommendations in our Interim Report 2016/17 and ISA 260 report 2016/17. Of those recommendations, one of them is still outstanding. Further details are included in Appendix 1.

Specific audit 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 2017/18*, presented to you in November 2017, we identified the key audit risks affecting the Authority's 2017/18 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 tables below provides a summary of the work the Authority has completed to date to address these risks.

Significant Audit Risks

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

Risk:	**Valuation of PPE** The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Authority has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. As a result of this, however, individual assets may not be revalued for four years. This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value.
Interim assessment and work undertaken:	We have confirmed with management the processes being undertaken for this year. We anticipate being able to place reliance on the expert valuations performed and will review these during the final audit. We have not yet, however, completed the relevant walkthroughs around this area. 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.

Specific audit areas (cont.)

Significant Audit Risks (cont.)

Risk:	**Pension Liabilities** The net pension liability represents a material element of the Authority's balance sheet. The Authority is an admitted body of the Dorset County Pension Fund, the Wiltshire County Pension Fund and the Firefighters' Pension Scheme, which had their last triennial valuations completed as at 31 March 2016. This forms an integral basis of the valuations as at 31 March 2018. The valuations of the Local Government Pension Scheme and the Firefighters' Pension Scheme rely on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Authority's overall valuations. There are financial assumptions and demographic assumptions used in the calculations of the Authority's valuations, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Authority's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes. There is a risk that the assumptions and methodology used in the valuations of the Authority's pension obligations are not reasonable. This could have a material impact to net pension liability accounted for in the financial statements.
Interim assessment and work undertaken:	Our work on this risk will be conducted when the actuarial reports have been received. From our discussions with finance staff, the process is on track, the relevant data has been sent to the actuary and, at the time of writing this report, we are not aware of any concerns about the valuation that might indicate a material misstatement in the accounts.

Specific audit areas (cont.)

Significant Audit Risks – Authority (cont.)

Risk:	**Faster Close** In prior years, the Authority has been required to prepare draft financial statements by 30 June and then publish final signed accounts by 30 September. For years ending on and after 31 March 2018 revised deadlines apply which require draft accounts by 31 May and final signed accounts by 31 July. These changes represent a significant change to the timetable that the Authority has previously worked to. The time available to produce draft accounts has been reduced by one month and the overall time available for completion of both accounts production and audit is two months shorter than in prior years. In order to meet the revised deadlines, the Authority may need to make greater use of accounting estimates. In doing so, consideration will need to be given to ensuring that these estimates remain valid at the point of finalising the financial statements. In addition, there are a number of logistical challenges that will need to be managed. These include: • Ensuring that any third parties involved in the production of the accounts (including valuers and actuaries) are aware of the revised deadlines and have made arrangements to provide the output of their work in accordance with this; • Revising the closedown and accounts production timetable in order to ensure that all working papers and other supporting documentation are available at the start of the audit process; • Ensuring that the Finance, Governance and Audit Committee meeting schedules have been updated to permit signing in July; and • Applying a shorter paper deadline to the July meeting of the Finance, Governance and Audit Committee meeting in order to accommodate the production of the final version of the accounts and our ISA 260 report. In the event that the above areas are not effectively managed there is a significant risk that the audit will not be completed by the 31 July deadline. There is also an increased likelihood that the Audit Certificate (which confirms that all audit work for the year has been completed) may be issued separately at a later date if work is still ongoing in relation to the Authority's Whole of Government Accounts return. This is not a matter of concern and is not seen as a breach of deadlines.
Interim assessment and work undertaken:	We have held discussions with the Principal Financial Accountant, Head of Finance and Finance Director around the process set up in order to meet the faster close deadline. We have reviewed the timetable and areas covered by the planner, and it appears to be reasonable. However, one area requiring consideration is resourcing – Finance is currently only operating with one Principal Financial Accountant, and there is a risk that Finance may not be able to progress the closedown in line with the planned timetable due to less than anticipated accounting resources being available. Management confirmed that the process for faster close will be revisited and actions put in place soon to alleviate these resourcing issues.

Specific value for money risk areas

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

We are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

Work completed

In line with the risk-based approach set out in our *External Audit Plan 2017/18*, 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, other inspectorates and review agencies in relation to these risk areas; and

— Concluded to what extent we need to carry out additional risk-based work.

Key findings

We have performed our initial VFM risk assessment and have not identified any significant VFM audit risks requiring additional risk-based work.

Our risk assessment remains on-going and we will report in July on the completion of this work should any issues present themselves.

Appendix 1:

Follow Up of Prior Year Recommendations

The Authority has implemented one recommendation from last year's audit, and for the other we have repeated our recommendation.

This appendix summarises the progress made to implement the recommendations identified in our *Interim Audit Report 2016/17* and *ISA 260 Report* and re-iterates any recommendations still outstanding.

Number of recommendations that were	
Included in the original report	**2**
Implemented in year or superseded	**1**
Outstanding at the time of our interim audit	**1**

No.	Risk	Issue & Recommendation	Management Response	Status
1	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 six 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. **Segregation of duties** 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.	**Prior Year Management Response** Of the six user accounts identified, two super user 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 five super user accounts are allocated. Of those five super user accounts, two are allocated to one job share post, i.e. the Principal Financial Accountant. This effectively means we have four super user 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 of one from the former Service. The super user accounts provide resilience and flexibility, as we now have three sites where the finance function is carried out, therefore we consider concurrent four super user accounts appropriate.	List has been updated since prior year, and it is now monitored by relevant staff on a regular basis.

Appendix 1:

Follow Up of Prior Year Recommendations

No.	Risk	Issue & Recommendation	Management Response	Status
2	3	**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. **Segregation of duties** Best practice is for journals to be approved or reviewed by a separate individual to the person posting it. **Recommendations** We have reported this control weakness previously and the Authority's response has been to accept the risk and not make any changes to its control environment. Our view remains that this area should be strengthened and hence we have repeated a recommendation on this matter in Appendix 1. We are unable to rely on this control for our audit, although this can be addressed through the approach we take to substantive testing of journals entries when we perform our final audit.	**Prior year management response** We understand best practice is to have segregation of duties as an important control measure. However, this is sometimes not possible or practical given 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. **Current year management response** We understand the concerns in relation to this, but our response remains unchanged. However, we will undertake a review of journal controls during this financial year.	Not implemented. Our view remains that this area should be strengthened and therefore we reiterate this recommendation

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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.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, 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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