Item 18/19 Appendix A

KPMG

External Audit ISA260 Report 2017/18

Dorset & Wiltshire Fire and Rescue Authority

—

July 2018

Summary for Finance and Governance Committee

This document summarises the key findings in relation to our 2017/18 external audit at Dorset & Wiltshire Fire and Rescue Authority ('the Authority').

This report covers our final on-site work which was completed in June to July 2018 on the Authority's significant risk areas, as well as other areas of your financial statements.

Financial statements

Subject to all outstanding queries being resolved to our satisfaction we anticipate issuing an unqualified audit opinion on the Authority's financial statements before the deadline of 31 July 2018.

Based upon our initial assessment of risks to the financial statements (as reporting to you in our *External Audit Plan 2017/18* and updated during our audit) we identified the following significant risks (excluding those mandated by International Standards on Auditing – see Page 6):

- Valuation of PPE;
- Pension Liabilities; and
- Faster Close.

We have completed our audit testing (see Page 6) over the significant risks and have not identified any issues.

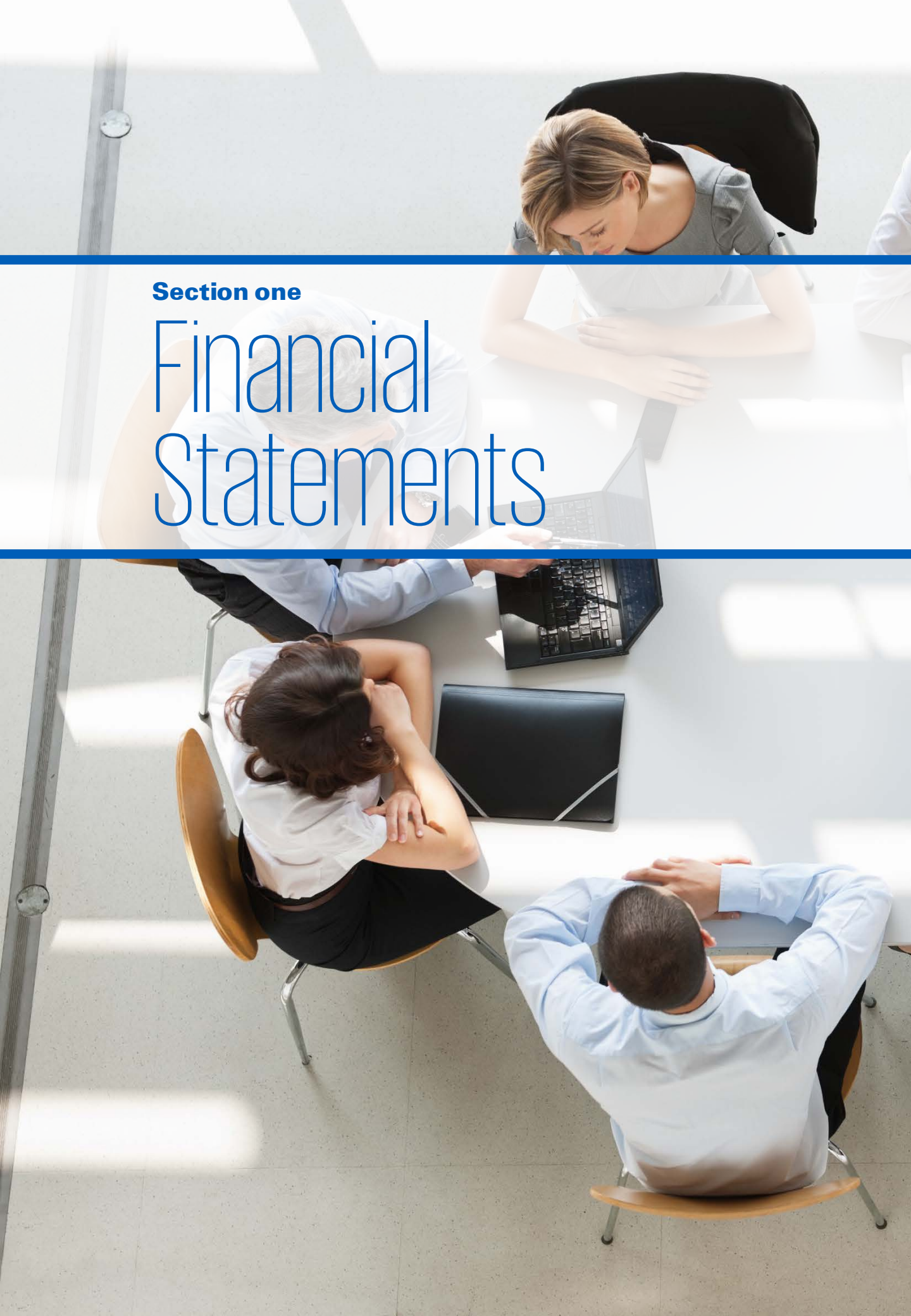
We have identified two audit adjustments with a total value of £397,000. See page 18 for details. These are unadjusted audit differences, therefore they result in a nil difference in the general fund balance.

Based on our work, we have not raised any new control recommendations, however, one recommendation raised in the prior years remains outstanding. Details of our recommendations can be found in Appendix 1.

We are now in the completion stage of the audit and anticipate issuing our completion certificate and Annual Audit letter following the approval of the accounts.

Summary for Finance and Governance Committee

Value for money arrangements	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 page 12.
Exercising of audit powers	We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or if the public should know about. We have not identified any matters that would require us to issue a public interest report. In addition, we have not had to exercise any other audit powers under the Local Audit & Accountability Act 2014.
Acknowledgements	The Authority has prepared the accounts to a faster timetable in the current period, whilst maintaining the quality of the financial statements and working papers. This has taken significant effort from the finance team and we would like to thank the team for their support during this period.



Section one

Financial Statements

Accounts production and audit process

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.

The Authority's overall process for the preparation of the financial statements is adequate.

The Authority has implemented one of the two recommendations in our *ISA 260 Report 2016/17*.

Accounts practices and production process

The Authority incorporated a number of measures into its closedown plan to further improve the project management of this complex process. Specifically, the Authority recognised the additional pressures which the earlier closedown brought and we engaged with officers in the period leading up to the year end in order to proactively address issues as they emerge.

We consider that the overall process for the preparation of your financial statements is adequate.

We also consider the Authority's accounting practices appropriate.

Going concern

The financial statements of the Authority have been prepared on a going concern basis. We confirm that we have identified no significant matters which would, in our view, affect the ability of the Authority to continue as a going concern.

Implementation of recommendations

We raised two recommendations in our *ISA 260 Report 2016/17*. In our *Interim Report 2017/18* we set out the status of those reports as at February 2018. The Authority has now implemented one of the two recommendations relating to the financial statements in line with the timescales of the action plan. The other recommendation remains outstanding (see Appendix 1).

Completeness of draft accounts

We received a complete set of draft accounts on 31 May 2018, which is the statutory deadline.

Response to audit queries

We are pleased to report that our agreed turnaround time for dealing with audit queries was achieved by Officers, including those who are not part of the finance team. As a result of this, all of our audit work was completed within the timescales expected with no outstanding queries. This achievement puts the Authority in a good position to take on the 2018/19 closedown with no significant concerns.

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

In our External Audit Interim Report 2017/18 tabled in February 2018, we reported that there were a number of year end controls that we would be testing during our year end audit.

We have since completed the testing of these controls and have found no significant issues to note.

Specific audit areas

We anticipate issuing an unqualified audit opinion on the Authority's 2017/18 financial statements by 31 July 2018. 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 2018, the Authority has reported a deficit on provision of services of £15.1m. The impact on the General Fund has been a decrease of £5.3m.

Auditing standards require us to consider two standard risks for all organisations. We consider these as a matter of course in our audit and will have set out the findings arising from our work in our ISA 260 Report below.

01

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.

02

Fraudulent 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 2017/18* 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.

Over the following pages we have set out our assessment of the specific significant risks and areas of audit focus we identified in relation to the audit of the Authority's financial statements.

Specific audit areas

Significant Audit Risks – Authority

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 Property, Plant and Equipment** 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.
Our assessment and work undertaken:	We reviewed the approach that the Authority adopted to assess the risk that assets not subject to valuation were materially misstated and considered the robustness of that approach. In addition, we considered movements in market indices between revaluation dates and the year end in order to determine whether these indicate that fair values had moved materially over that time. We also used the change in the valuation of the revalued assets to challenge the valuation of the individual assets not included in the formal revaluation. In relation to those assets which have been revalued during the year we reviewed the accounting entries made to record the results of the revaluation in order to ensure that they were appropriate. We also assessed the valuer's qualifications, objectivity and independence to carry out such valuations and reviewed the methodology used (including testing the underlying data and assumptions). As a result of this work we determined that the carrying value recorded in the accounts is appropriate. We have set out our view of the assumptions used in relation to accounting for Property, Plant & Equipment at page 9.

Specific audit areas (cont.)

Significant Audit Risks – Authority (cont.)

Risk:

Pension Liabilities

The 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 the pension liability accounted for in the financial statements.

Our assessment and work undertaken:

As part of our work we reviewed the controls that the Authority has in place over the information sent directly to the Scheme Actuary. We also liaised with the auditors of the Pension Funds in order to gain an understanding of the effectiveness of those controls operated by the Pension Funds. This included consideration of the process and controls with respect to the assumptions used in the valuation. We also evaluated the competency, objectivity and independence of Hymans Robertson and Barnett Waddingham.

We reviewed the appropriateness of the key assumptions included within the valuation and compared them to expected ranges and involved a KPMG Actuary to provide a specialist assessment of those assumptions. We also reviewed the methodologies applied in the valuation by Hymans Robertson and Barnett Waddingham.

In addition, we reviewed the overall Actuarial valuation and considered the disclosure implications in the financial statements.

As a result of this work we determined that no material issues have been identified with the pension liabilities as recorded in the statement of accounts.

We have set out our view of the assumptions used in valuing pension assets and liabilities at page 9.

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, there was a risk that the Authority may have needed to make greater use of accounting estimates. In doing so, consideration needed to be given to ensuring that these estimates remained valid at the point of finalising the financial statements. In addition, there were a number of logistical challenges that needed to be managed. These included:

Ensuring that any third parties involved in the production of the accounts (including valuers and actuaries) were aware of the revised deadlines and had 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 were available at the start of the audit process;

Ensuring that the Finance and Governance Committee meeting schedules had been updated to permit signing in July; and

Applying a shorter paper deadline to the July meeting of the Finance and Governance 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 were not effectively managed there would have been a significant risk that the audit would not have been completed by the 31 July deadline.

There was also an increased likelihood that the Audit Certificate (which confirms that all audit work for the year has been completed) might be issued separately at a later date if work was 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.

Our assessment and work undertaken:

We liaised with officers in preparation for our audit in order to understand the steps that the Authority was taking in order to ensure it met the revised deadlines. We also advanced audit work into the interim visit in order to streamline the year end audit work.

We received draft financial statements on the statutory deadline of 31 May 2018. The quality of this draft was consistent with that of prior years.

We considered the assumptions used in accounting estimates and challenged the robustness of those estimates. We also performed targeted journals testing relating to these estimates.

As a result of this work we determined that the faster close has been successfully met without significant accounting issues arising as a result.

Judgements

We have considered the level of prudence within key judgements in your 2017/18 financial statements and accounting estimates. We have set out our view below across the following range of judgements.

Level of prudence

0	1	2	3	4	5	6
Audit Difference	Cautious		Balanced		Optimistic	Audit Difference
	Acceptable Range					

Subjective area	2017/18	2016/17	Commentary
Property Plant & Equipment: Property Assets	3	3	The Authority has utilised an external valuation expert to provide valuation estimates. We have reviewed the instructions provided and deem that the valuation exercise is in line with the instructions. The resulting increase of 3.8% is in line with the 12 month movement in construction output price indices provided by the Office of National Statistics.
Valuation of pension assets and liabilities	4	4	The Authority continues to use Barnett Waddingham and Hymans Robertson to provide actuarial valuations in relation to the assets and liabilities recognised as a result of participation in Local Government Pension Schemes and the Firefighters Pension Scheme. Due to the overall value of the pension assets and liabilities, small movements in the assumptions can have a significant impact on the overall valuation. For example, a 0.2% change in the discount rate would change the net liability by £265,000. The actual assumptions adopted by the actuary fell within our expected ranges with the exception of the discount rate as set our below:

Assumption	Actuary Value	KPMG Expected	Assessment
Discount rate: Wiltshire LGPS Dorset LGPS / Firefighters Pension	 2.70% 2.55%	2.51%	6 *
Pension Increase Rate	2.3% to 2.4%	2.15%	2
Salary Growth	CPI plus 0% to 2%	CPI plus 0% to 2%	3
Life expectancy Males currently aged 45 Males currently aged 65 Females currently aged 45 Females currently aged 65	 24.1 – 26.2 22.3 – 24.0 26.7 – 28.4 24.8 – 26.1	 23.5 22.1 25.4 23.9	2

The proposed discount rate assumption applied in valuing the Wiltshire Pension Fund liability falls outside the optimistic end of our normally acceptable range. The estimated impact of moving to the edge of KPMG's normally acceptable range for the discount rate is to increase the disclosed liability by £265,000.

* NB. The discount rate assumption applied in valuing the Dorset County Pension Scheme and Firefighters Pension Scheme liabilities is considered balanced and would alone have rated 3 on the level of prudence scale.

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 2017/18 financial statements following approval of the Statement of Accounts by the Finance and Governance Committee on 31 July 2018.

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 (see Appendix 3) for this year's audit was set at £1 million. Audit differences below £50k are not considered significant.

We did not identify any material misstatements. We identified 2 issues that have not been adjusted by management as they do not have a material effect on the financial statements (see Appendix 2).

Annual governance statement

We have reviewed the Authority's 2017/18 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 and is consistent with other information we are aware of from our audit of the financial statements.

We have made a number of comments in respect of its format and content which the Authority has agreed to amend where significant.

Narrative report

We have reviewed the Authority's 2017/18 narrative report and have confirmed that it is consistent with the financial statements and our understanding of the Authority.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's 2017/18 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 2018, 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 the Treasurer for presentation to the Finance and Governance 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 Authority's 2017/18 financial statements.

Section two

Value for Money Arrangements

Specific value for money risk areas

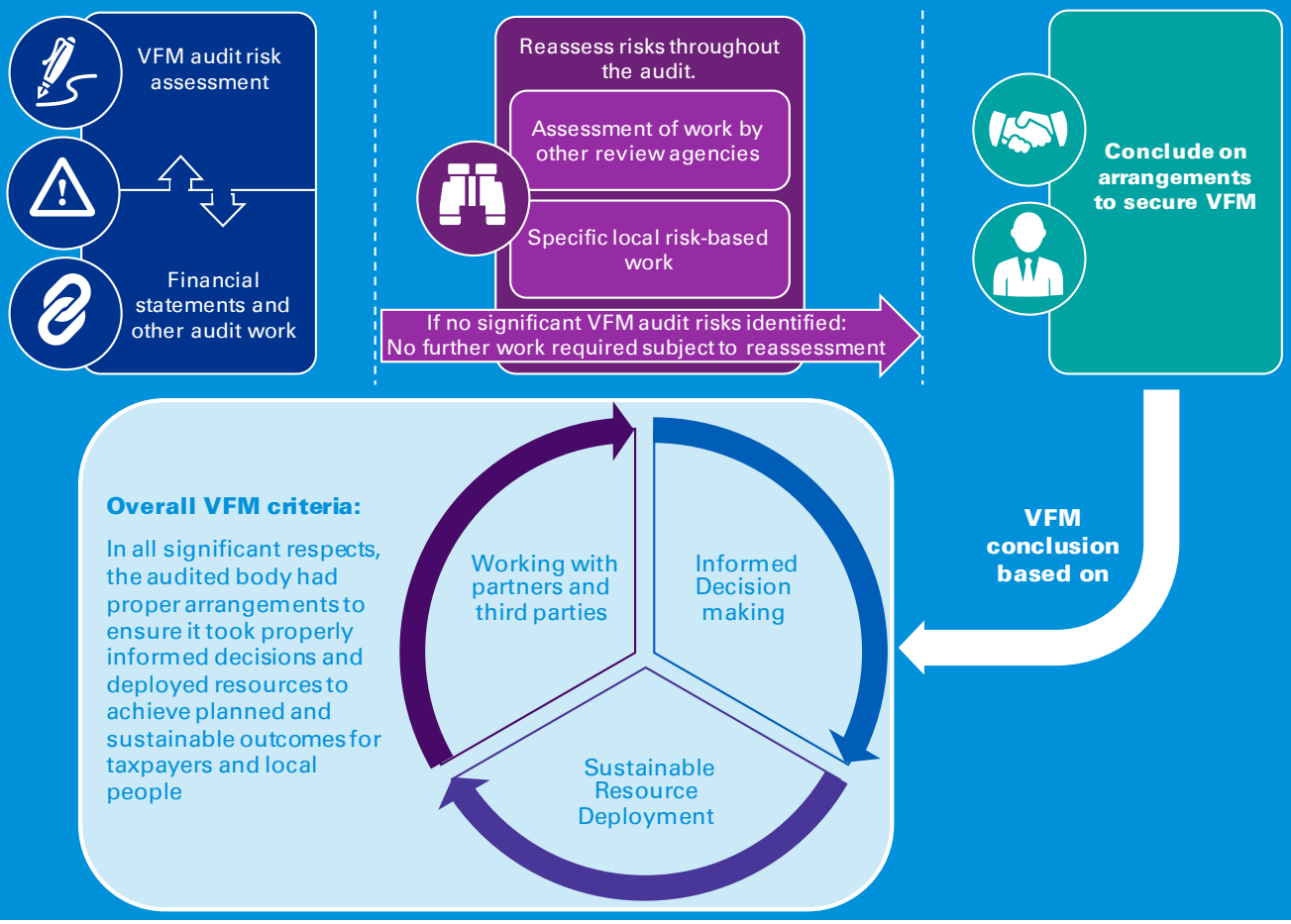
Our 2017/18 VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

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.

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.'

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



Specific value for money risk areas (cont.)

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 performed our VFM risk assessment and have not identified any significant VFM audit risks requiring additional risk-based work. We have concluded that in 2017/18, 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

Appendix 1:

Follow-up of prior year recommendations

The Authority has not implemented all of the recommendations raised through our previous audit work.

We re-iterate the importance of the outstanding recommendation.

This appendix summarises the progress made to implement the recommendations identified in our *ISA 260 Report 2016/17* 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 as at July 2018
2	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. **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.	**Prior Year Management Response** Of the 6 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 5 super user accounts are allocated. Of those 5 super user accounts, two are allocated to one job share post, i.e. the Principal Financial Accountant. This effectively means we have 4 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 in 1 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 four concurrent super users 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 (cont.)

No.	Risk	Issue & Recommendation	Management Response	Status as at July 2018
3	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. 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

Appendix 2:

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 and Governance 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 2017/18 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 – Authority

There are no significant audit differences identified by our audit of the Dorset & Wiltshire Fire and Rescue Authority's financial statements for the year ended 31 March 2018 which require an adjustment.

Unadjusted audit differences

The following table sets out the uncorrected audit differences identified by our audit of Dorset & Wiltshire Fire and Rescue Authority's financial statements for the year ended 31 March 2018. These differences are individually below our materiality level of £1,000,000. The impact of these uncorrected audit differences on net assets is £265,000. We have considered the impact of these unadjusted audit differences on the Authority's financial statements in forming our audit opinion.

Table 2: Unadjusted audit differences – Authority (£'000)

No.	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Basis of audit difference
1	Dr Actuarial gains and losses 265			Cr Net Pensions Liability 265		The discount rate used by Wiltshire Pension Fund's actuary (2.7%) is higher than what KPMG would consider to be the balance discount rate (2.51%), which is benchmarked against other discount rates from other actuaries. Applying the balance discount rate results in an increase to the disclosed liability.
2			Cr PPE 132	Dr Current Creditors 132		Systems assets of approximately £132k did not become property of the Authority until after year end, though they were accounted for as additions and creditors at year end due to a cut-off error.
	Dr 265		**Cr 132**	**Cr 133**		**Total impact of adjustments**

Appendix 3:

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 2017/18*, presented to you in November 2017.

Materiality for the Authority's accounts was set at £1 million which equates to around 1.8% percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Finance and Governance 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 and Governance 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, an individual difference is considered to be clearly trivial if it is less than £50k 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 and Governance Committee to assist it in fulfilling its governance responsibilities.

Appendix 4:

Required communications with the Finance and Governance Committee

We have provided below at-a-glance summary of the information we are required to report to you in writing by International Accounting Standards.

Required Communication	Commentary
Our draft management representation letter	We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2018.
Adjusted audit differences	We have identified no adjusted differences as a result of our audit of the Dorset & Wiltshire Fire and Rescue Authority's financial statements.
Unadjusted audit differences	The net impact of unadjusted audit differences on provision of services would be £265,000. In line with ISA 450 we request that you adjust for these items. However, they will have no effect on the opinion in the auditor's report. See Appendix 2 for further details.
Related parties	There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Finance and Governance Committee	There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
Control deficiencies	We have set out our assessment of the Authority's internal control environment, including confirmation that there were no significant deficiencies identified, in our *Interim Report 2017/18* with an update included at pages 16-17 of this report. We communicated to management in writing all deficiencies in internal control over financial reporting of a lesser magnitude than significant deficiencies identified during the audit that had not previously been communicated in writing in February 2018.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	We identified no actual or suspected fraud involving the Authority's Members or officers with significant roles in internal control, or where the fraud resulted in a material misstatement in the financial statements.
Significant difficulties	No significant difficulties were encountered during the audit.
Modifications to auditor's report	There are no modifications to our audit report.
Disagreements with management or scope limitations	The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.

Appendix 4:

Required communications with the Finance and Governance Committee (cont.)

Required Communication	Commentary
Other information	No material inconsistencies were identified related to other information in the Narrative Report or Annual Governance Statement. These reports were found to be fair, balanced and comprehensive, and compliant with applicable requirements.
Our declaration of independence and any breaches of independence	No matters to report. The engagement team have complied with relevant ethical requirements regarding independence. See Appendix 5 for further details.
Accounting practices	Over the course of our audit, we have evaluated the appropriateness of the Authority's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate. We have set out our view of the assumptions used in valuing pension assets and liabilities at page 9.
Significant matters discussed or subject to correspondence with management	There were no significant matters arising from the audit discussed.

Appendix 5:

Declaration of independence

ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF DORSET & WILTSHIRE FIRE AND RESCUE AUTHORITY

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code of Audit Practice, the provisions of Public Sector Audit Appointments Limited's ('PSAA's') Terms of Appointment relating to independence, the requirements of the FRC Ethical Standard and the requirements of Auditor Guidance Note 1 - General Guidance Supporting Local Audit (AGN01) issued by the National Audit Office ('NAO') on behalf of the Comptroller and Auditor General.

This Statement is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

— General procedures to safeguard independence and objectivity;

— Independence and objectivity considerations relating to the provision of non-audit services; and

— Independence and objectivity considerations relating to other matters.

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 partners, Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

— Instilling professional values

— Communications

— Internal accountability

— Risk management

— Independent reviews.

We are satisfied that our general procedures support our independence and objectivity.

Declaration of independence (cont.)

Independence and objectivity considerations relating to the provision of non-audit services

Summary of fees

We have considered the fees charged by us to the authority and its controlled entities for professional services provided by us during the reporting period.

As communicated to you in our *External Audit Plan 2017/18*, our scale fee for the audit is £45,000 plus VAT (£45,000 in 2016/17), which is consistent with the prior year.

There were no fees charged for non-audit services in 2017/18 (2016/17: £nil).

We are required by AGN 01 to limit the proportion of fees charged for non-audit services (excluding mandatory assurance services) to 70% of the total fee for all audit work carried out in respect of the Authority under the Code of Audit Practice for the year. The ratio of non-audit fees to audit fees for the year was 0:1. We do not consider that the total of non-audit fees creates a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Finance and Governance Committee.

Confirmation of audit independence

We confirm that as of the date of this report, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Rees Batley and audit staff is not impaired.

This report is intended solely for the information of the Finance and Governance Committee of the authority and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

KPMG LLP

KPMG LLP

The key contacts in relation to our audit are:

Rees Batley
Director
T: +44 (0) 117 905 4434
E: rees.batley@kpmg.co.uk

David Parson
Manager
T: +44 (0) 23 8020 2054
E: david.parson@kpmg.co.uk

kpmg.com/uk

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 Rees Batley, 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.

CREATE: CRT086281A