



## **Dorset & Wiltshire Fire and Rescue Authority**

### Report to the Finance & Governance Committee on the audit for the year ended 31 March 2019

Issued 28 August 2019 for the meeting on 19 September 2019

# Contents

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## 01 Our final report

Introduction	3
Our audit explained	4
Significant risks	5
Value for Money and Pension Liability – McCloud Judgement	9
Other significant findings	10
Our audit report	13
Your annual report	14
Purpose of our report and responsibility statement	15

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## 02 Appendices

Audit adjustments	17
Fraud responsibilities and representations	18
Independence and fees	19

# Introduction

## The key messages in this report

I have pleasure in presenting our report to the Finance & Governance Committee (the committee) for the 2019 audit. The scope of our audit was set out within our planning report presented to the Committee in February 2019.

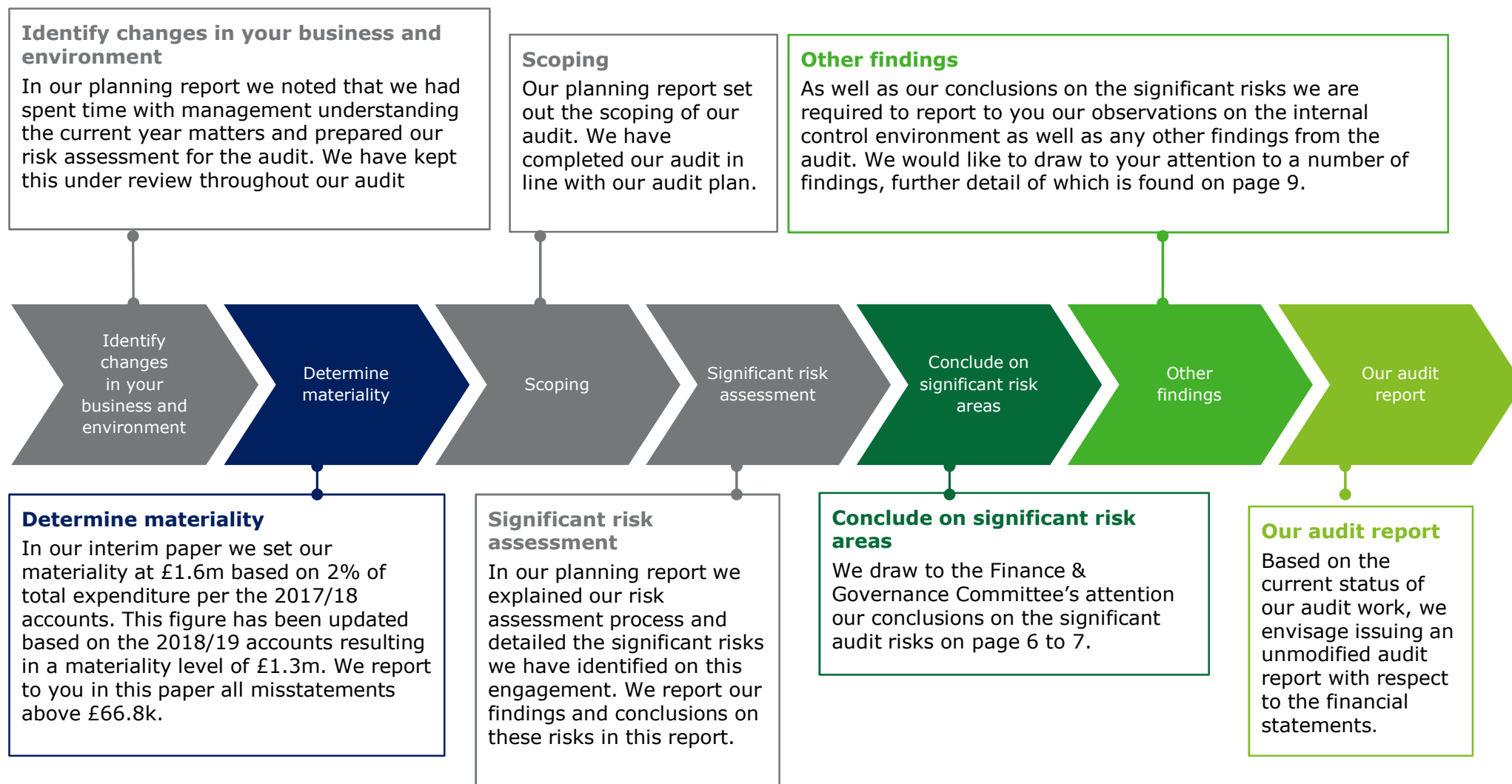
Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

<b>Status of the audit</b>	<p>Our audit is near completion with the following principal matters to be finalised:</p> <ul style="list-style-type: none"><li>• Finalisation our understanding of the actuaries calculations in relation to Mccloud;</li><li>• receipt of signed management representation letter; and</li><li>• our review of events since 31 March 2019 through to signing.</li></ul> <p>We will provide an oral update on the completion of these matters at the meeting of the Finance &amp; Governance Committee.</p>
<b>Conclusions from our testing</b>	<ul style="list-style-type: none"><li>• Our audit work is substantially complete. We envisage issuing an unmodified audit opinion on the Authority's financial statements.</li></ul>
<b>Narrative Report &amp; Annual Governance Statement</b>	<ul style="list-style-type: none"><li>• We have reviewed the Authority's Annual Report &amp; Annual Governance Statement to consider whether it is misleading or inconsistent with other information known to us from our audit work.</li><li>• The Annual Governance Statement complies with the Delivering Good Governance guidance issued by CIPFA/SOLACE.</li><li>• We have no matters to raise with you in respect of the latest version of the Narrative Report.</li></ul>
<b>Duties as public auditor</b>	<ul style="list-style-type: none"><li>• We did not receive any queries or objections from local electors this year.</li><li>• We have not identified any matters that would require us to issue a public interest report. We have not had to exercise any other audit powers under the Local Audit and Accountability Act 2014.</li></ul>







# Our audit explained

## We tailor our audit to the Authority and your strategy



# Significant risks Dashboard

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Risk	Material	Fraud risk	Planned approach to controls testing	Comments	Page no.
Property Valuations			D+I	Satisfactory	6
Completeness and Cut-off of Expenditure			D+I	Satisfactory	7
Management Override of Controls			D+I	Satisfactory	8

**D+I:** Testing of the design and implementation of key controls

# Significant risks (continued)

## Property valuations

### Risk identified

The Authority held £40.2m of property assets (land and buildings) at 31 March 2017 which increased to £44.2m as at 31 March 2018. The increase in movement in part was due to upwards revaluations of £1.4m as a result of the authority undertaking independent valuation exercise during 2017/18.

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.

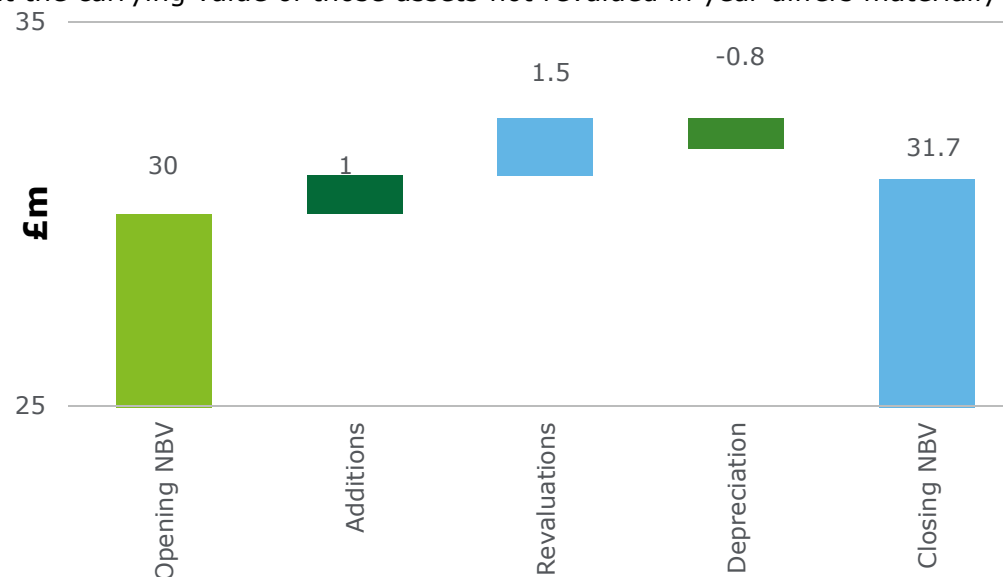
### Key judgements

Property assets are revalued as part of the Authority's five year rolling programme for the revaluation. The valuations are carried out by the Authority's external valuers, BNP Paribas.

The financial year to 31 March 2019 represented part of a five year rolling programme. 12 of the Authority's asset portfolio were valued.

The valuation was prepared as at 31 March 2019.

As shown in the graph the main movements supporting the upward trend in the Authorities land and buildings assets are the revaluation of £1.5m and capital additions of £1m.



### Deloitte response

- We tested the design and implementation of key controls in place around the property valuation, including how the Council assures itself that there are no material impairments or changes in value for the assets not covered by the annual valuation.
- We reviewed revaluations performed in the year, assessing whether they have been performed in a reasonable manner, on a timely basis and by suitably qualified individuals.
- We used our valuation specialists, Deloitte Real Estate, to support our review and challenge the appropriateness of the assumptions used in the valuation of the Authority's property assets.
- We tested a sample of revalued assets and reperformed the calculation of the movement to be recorded in the financial statements to check correctly recorded.

### Deloitte view

No issues were identified from our testing of the property values in the Authority's accounts.

# Significant risks (continued)

## Completeness and Cut-off of Expenditure

### **Risk identified**

Under UK auditing standards, there is a presumed risk of revenue recognition due to fraud. We have rebutted this risk, and instead believe that the fraud risk lies with the completeness and cut-off of expenditure and completeness and valuation of accruals.

In February 2018, the Authority approved a budget with a net cost of service of £58.3m. As at July 2018, the Authority reported an underspend of £0.5m against this position. This forecasted position has deteriorated to £0.16m under budget (as at September 2018). Given the Authority's current budget position and the pressures across the whole of the public sector, there is an inherent fraud risk associated with the under recording of expenditure in order for the Authority to report a more favourable year-end position.

There is a risk that the Authority may materially misstate expenditure through the accruals and provisions balance, including year-end transactions, in an attempt to report a more favourable year end position.

### **Deloitte response**

- We obtained an understanding of the design and implementation of the key controls in place to ensure the completeness of accruals and provisions.
- We performed focused testing in relation to the completeness of accruals through testing of post-year end invoices raised and payments made. We also performed focused testing on the accuracy of the accruals in the financial statements.
- We reviewed provisions to assess completeness including confirming there are no legal claims outstanding requiring a provision to be made.

### **Deloitte view**

Overall, we have concluded that expenditure is not materially misstated.

# Significant risks (continued)

## Management override of controls

### **Risk identified**

In accordance with ISA 240 (UK and Ireland) management override is a significant risk. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Authority's controls for specific transactions.

The key judgements in the financial statements are those which we have selected to be the significant audit risks, i.e. completeness and cut-off of expenditure and the Authority's property valuations. These are inherently the areas in which management has the potential to use their judgment to influence the financial statements.

### **Deloitte response**

- We tested the design and implementation of key controls in place around journal entries and key management estimates.
- We risk assessed journals and select items for detailed testing. The journal entries were selected using computer-assisted profiling based on areas which we consider to be of increased interest.
- We reviewed accounting estimates for biases that could result in material misstatements due to fraud.
- We did not identify any significant transactions that were outside of the normal course of business for the Authority.

### **Deloitte view**

Overall, we found no evidence of management override of control.



# Other matters

## Value for money

### Background

Under the National Audit Office's Code of Audit Practice, we are required to report whether, in our opinion, the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The Code and supporting Auditor Guidance Notes require us to perform a risk assessment to identify any risks that have the potential to cause us to reach an inappropriate conclusion on the audited body's arrangements. We are required to carry out further work where we identify a significant risk - if we do not identify any significant risks, there is no requirement to carry out further work.

### Deloitte risk assessment

- We obtained an understanding of the Authority's Medium Term Financial Plan, and budget for 2019/20.
- We reviewed the Authority's draft Narrative Report, Annual Governance Statement and relevant Authority papers and minutes.
- We considered the Authority's financial results for the year and the assumptions in the budget for future years.
- We considered matters identified by the National Audit Office as potential value for money risks for Authority for 2018/19.
- Based upon the work performed in our risk assessment, we did not identify any significant audit risks consistent with our Planning Report.

### Deloitte view

No issues identified. We intend to issue a clean value for money opinion.

## Pensions Liability – McCloud Judgement

The Authority's pension liability is derived from actuarial estimates of the assets and liabilities of the Local Government Pension Scheme (LGPS) and a Firefighters Pension Scheme (FPS). Both schemes are affected by the McCloud legal case in respect of potential discrimination in the implementation of transitional protections following changes in public sector pension schemes in 2015. Subsequent to year-end, the Government was denied leave to appeal the case, removing the uncertainty over recognition of a liability.

As a result, the Authority is required to recognise the cost associated with remediating the discrimination. At present there has not been a ruling on the specific form of the remediation's required, however a number of different factors impact on this – including the average age of the plan membership, and salary growth assumptions.

The Authority commission its actuary to revise its liability assumptions for both the LGPS and FPS. The result is a increase of £210,000, and £9,623,000 respectively. At the time of writing the report our actuaries are concluding on the methodology used by the FPS actuary. We will provide a verbal update at the meeting as to our conclusions.

# Other significant findings

## Internal control and risk management

During the course of our audit we have identified a number of internal control and risk management findings, which we have included below for information.

The purpose of the audit was for us to express an opinion on the financial statements. The audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters being reported are limited to those deficiencies that we have identified during the audit and that we have concluded are of sufficient importance to merit being reported to you.

Observation	Deloitte recommendation
<p data-bbox="226 651 898 675"><b>Authentication Security Settings for Agresso:</b></p> <p data-bbox="226 730 1059 786">During our review, we noted that the password settings below on Agresso are not aligned to industry standards:</p> <ul data-bbox="226 802 1059 1102" style="list-style-type: none"><li data-bbox="226 802 1059 898">• No automated control in place to ensure users will use different types of characters while defining passwords to increase security.</li><li data-bbox="226 906 1059 1002">• Password history is not enabled which determines the number of unique new passwords that must be associated with a user account before an old password can be reused</li><li data-bbox="226 1010 1059 1102">• No lockout threshold enabled which determines the number of failed sign-in attempts that will cause a user account to be locked</li></ul>	<p data-bbox="1095 651 2096 807">Authentication control weaknesses increase the vulnerability of accounts to unauthorised access attempts and should be addressed, either through implementing stronger password parameters in the system or, if this is not possible, through alternative monitoring controls to increase the chance of detecting any such attempts.</p>
<p data-bbox="226 1126 714 1150"><b>Lack of user access right review:</b></p> <p data-bbox="226 1206 1059 1329">We have been informed that user access right reviews on Windows Active Directory and Agresso are not formally documented and are conducted on an adhoc basis by the respective system administrators.</p>	<p data-bbox="1095 1126 2096 1445">User access reviews are vital in making sure that access is provided only on need to do or need to know basis. Without performing regular user access reviews, management cannot ensure that access rights to information systems continue to match the job responsibilities of individuals. We recommend that management introduce a formal review of user accounts and access rights at least annually to detect dormant accounts and accounts with excessive privileges. Related review should be designed to include all accounts in the system, such as accounts being used by external contractors, etc. and follow up procedures to ensure remediation actions are taken for the excessive level of accesses granted are disabled on a timely basis.</p>

# Other significant findings

## Internal control and risk management

During the course of our audit we have identified a number of internal control and risk management findings, which we have included below for information.

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	Observation	Deloitte recommendation
<b>3</b>	There is no control in place to verify the accuracy of the transcription of the IAS 19 Actuary Report figures entered into the financial statements	It is recommended that the IAS 19 disclosures are reviewed against the IAS 19 actuary report for accuracy by member of the finance as part of the review of the financial statements.

# Other significant findings (continued)

## Financial reporting findings

Below are the findings from our audit surrounding your financial reporting process.

### **Qualitative aspects of your accounting practices:**

No issues have been identified as at the date of this report.

### **Other matters relevant to financial reporting:**

No issues have been identified as at the date of this report.

### **Significant matters discussed with management:**

No issues have been identified as at the date of this report.

We will obtain written representations from those charged with governance on matters material to the financial statements when other sufficient appropriate audit evidence cannot reasonably be expected to exist. A copy of the draft representations letter has been circulated separately.

# Our audit report

## Matters relating to the form and content of our report

Here we discuss how the results of the audit impact on other significant sections of our audit report..



### **Our opinion on the financial statements**

We anticipate issuing an unmodified opinion on the financial statements.



### **Material uncertainty related to going concern**

We have not identified a material uncertainty related to going concern and will report by exception regarding the appropriateness of the use of the going concern basis of accounting.



### **Emphasis of matter and other matter paragraphs**

There are no matters we judge to be of fundamental importance in the financial statements that we consider it necessary to draw attention to in an emphasis of matter paragraph. There are no matters relevant to users' understanding of the audit that we consider necessary to communicate in an other matter paragraph.



### **Our value for money conclusion**

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money). We anticipate issuing a unmodified conclusion on the Authority's arrangement.



### **Other reporting responsibilities**

The Annual Report is reviewed in its entirety for material consistency with the financial statements and the audit work performed and to ensure that they are fair, balanced and reasonable.

# Your annual report

We are required to report by exception on any issues identified in respect of the Narrative Report and Annual Governance Statement. . At this stage in the audit no issues have been noted, however as the audit is completed items that impact on the below areas may be identified.

	Requirement	Deloitte response
Narrative Report	<p>The Narrative Report is expected to address (as relevant to the Authority):</p> <ul style="list-style-type: none"> <li>- Organisational overview and external environment;</li> <li>- Governance;</li> <li>- Operational Model;</li> <li>- Risks and opportunities;</li> <li>- Strategy and resource allocation;</li> <li>- Performance;</li> <li>- Outlook; and</li> <li>- Basis of preparation</li> </ul>	<p>We have assessed whether the Narrative Report has been prepared in accordance with CIPFA guidance.</p> <p>We have also read the Narrative Report for consistency with the annual accounts and our knowledge acquired during the course of performing the audit, and is not otherwise misleading.</p> <p>Our review identified a number of minor areas where the Narrative Reports needed revising in order to comply with guidance and to ensure that they were fair, balanced and understandable, which have been reflected in the final version.</p>
Annual Governance Statement	<p>The Annual Governance Statement reports that governance arrangements provide assurance, are adequate and are operating effectively.</p>	<p>No issues have been identified as at the date of this report.</p>

# Purpose of our report and responsibility statement

## Our report is designed to help you meet your governance duties

### What we report

Our report is designed to help the Finance & Governance Committee and the Authority discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 (UK) to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Report.
- Our internal control observations.
- Other insights we have identified from our audit.

### What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the Authority.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

### The scope of our work

Our observations are developed in the context of our audit of the financial statements. We described the scope of our work in our audit plan and again in this report.

This report has been prepared for the Finance & Governance Committee and Authority, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

We welcome the opportunity to discuss our report with you and receive your feedback.

**Michelle Hopton**  
for and on behalf of Deloitte LLP  
Bristol  
28 August 2019

# Appendices





# Audit adjustments

## Unadjusted misstatements/disclosure deficiencies

### **Related parties**

As part of our related party tested we identified the Authority discloses that the Chief Fire Officer is a board member of a charity called Safewise, and that a grant is provided, however the accounts do not note the value of the grant (£129,000).

## Corrected misstatements/disclosure deficiencies

### **Revised calculation of the fair value of the Authority's borrowings in note 7.**

The Authority revised its calculation of the fair value of the loans from £9,975,636, to £12,537,645

### **Loan Interest disclosed (note 7)**

As part of our audit we identified in note 7 interest charged for both 2018/19 and 2017/18 was incorrectly disclosed. It should be 2018/19: £434,391 (was £1,100,429) 2017/18: £480,134 (was £1,182,951).

### **McCloud**

As a result of the McCloud ruling, the Authority recalculated its pension liability. This resulted for the LGPS an increase in the liability of £210,000, and a corresponding increase of £210,000 in the pension charge to the CIES. The FPS liability increased by £9,623,000, and resulted in a corresponding increase of £9,623,000 in the pension charge to the CIES. This adjustment is subject to satisfactory conclusion of our review of the pensions work as documented on page 9.

# Fraud responsibilities and representations

## Responsibilities explained



### Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.



### Required representations:

We have asked the Authority to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you are not aware of any fraud or suspected fraud that affects the Authority.

We have also asked the Authority to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.



### Audit work performed:

In our planning we identified completeness and cut off of expenditure and management override of controls as key audit risks for your organisation.

During the course of our audit, we have had discussions with management and those charged with governance and have not identified any further risks relating to fraud.

### Concerns:

No concerns identified during our work.

# Independence and fees

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

<b>Independence confirmation</b>	We confirm that we comply with Financial Reporting Council (FRC) Ethical Standards for Auditors and that, in our professional judgement, we and, where applicable, all Deloitte network firms are independent and our objectivity is not compromised.
<b>Fees</b>	<p>The audit fee for 2018/19, in line with the fee range provided by Public Section Audit Appointments (PSAA), is £34,650.</p> <p>As a result of the additional work generated by the McCloud judgement and the requirement to use our actuary to understand the adjustment made by the Authority's actuary, we are engaging with management for further fees relating to this additional work.</p> <p>No non-audit fees have been charged by Deloitte in the period.</p>
<b>Non-audit services</b>	In our opinion there are no inconsistencies between FRC Ethical Standards for Auditors and the Authority's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
<b>Relationships</b>	<p>We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL (Deloitte Touche Tohmatsu Limited) network to the Authority, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence.</p> <p>We are not aware of any relationships which are required to be disclosed.</p>



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