External Audit Report 2015/16

Dorset Fire Authority

September 2016

Contents

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This report is addressed to Dorset & Wiltshire Fire and Rescue Authority and has been prepared for the sole use of Dorset & Wiltshire Fire and Rescue Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Darren Gilbert, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (on 0207 694 8981, or by email to andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3H.

Section one: Introduction

Introduction

This document summarises:

- **The key issues identified during our audit of the financial statements for the year ended 31 March 2016 for the Authority; and**
- **Our assessment of the Authority's arrangements to secure value for money.**

Scope of this report

This report is addressed to Dorset & Wiltshire Fire and Rescue Authority, to whom we are reporting on the audit of the demised Dorset Fire Authority following its combination with Wiltshire & Swindon Fire Authority.

This report summarises the key findings arising from:

- Our audit work at Dorset Fire Authority ('the Authority') in relation to the Authority's 2015/16 financial statements; and
- The work to support our 2015/16 conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

Financial statements

Our *External Audit Plan 2015/16*, presented to you in March 2016, set out the four stages of our financial statements audit process.

This report focuses on the third stage of the process: substantive procedures. Our on site work for this took place during March 2016 (interim) and July 2016 (final).

We are now in the final phase of the audit, the completion stage. Some aspects of this stage are also discharged through this report.

VFM Conclusion

Our External Audit Plan 2015/16 explained our risk-based approach to VFM work. We have now completed the work to support our 2015/16 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 and other inspectorates and review agencies in relation to these risk areas; and
- Carrying out additional risk-based work, including an assessment of the impact of the combination with Wiltshire & Swindon Fire Authority on VFM.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 2015/16 financial statements of the Authority.
- Section 4 outlines our key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1.

Acknowledgements

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

KPMG

Section two: Headlines

Headlines

This table summarises the headline messages for the Authority. Sections three and four of this report provide further details on each area.

Proposed audit opinion	We anticipate issuing an unqualified audit opinion on the Authority's financial statements by 30 September 2016. We will also report that your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.
Audit adjustments	Our audit has identified a total of two audit adjustments. The impact of these adjustments is to: — Decrease the balance on the general fund account as at 31 March 2016 by £63,891; — Increase the deficit on provision of services for the year by £63,891; and — Decrease the net worth of the Authority as at 31 March 2016 by £63,891. We have included a full list of significant audit adjustments at Appendix two. One unadjusted difference relates to a variance of £63,891 on the PFI unitary charge. The other difference is in respect of a manual adjustment of £734,405 made to reverse a prior year adjustment to cash for pending cheques. This difference has been adjusted in the financial statements at 31 March 2016.
Key financial statements audit risks	We identified the following key financial statement audit risk in our 15/16 External audit plan issued in March 2016. — Valuation of Property The Property, Plant and Equipment is a large proportion of the Net assets of the Authority, we identified the valuation process to be a significant audit risk, due to small movements in the assets leading to a large effect on the Comprehensive Income and Expenditure Statement. We have worked with the officers throughout, and are satisfied that the overall approach that has been taken is reasonable. An area of audit focus identified in our 15/16 External audit plan was: — Combination with Wiltshire and Swindon Fire Authority The combination with Wiltshire & Swindon Fire Authority on 1 April 2016 was part of a long-term strategy to reduce costs through efficiencies gained. Such a significant project could place a strain on the organisation where resources and management time are limited. We have considered the completeness and appropriate accounting treatment of combination related transaction. The combination was also reviewed as a VFM risk in section 4. We have worked with officers throughout the year to discuss these areas, our detailed findings are reported in section 3.

Headlines (cont.)

This table summarises the headline messages for the Authority. Sections three and four of this report provide further details on each area.

Accounts production and audit process	We received complete draft accounts by 30th June 2016 in accordance with the Accounts and Audit Regulations deadline. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Code. The officers have good processes in place for the production of the accounts and good quality supporting working papers. As in previous years, we will debrief with the team to share views on the final accounts audit. In particularly we would like to thank Authority Officers who were available throughout the audit visit to answer our queries.
VFM conclusion and risk areas	We identified the following VFM risks in our External audit plan 2015/16 issued in March 2016. — Combination with Wiltshire & Swindon Fire Authority. We have worked with officers throughout the year to discuss the VFM risk and our detailed findings are reported in section 4 of this report. There are no matters of any significance arising as result of our audit work in these VFM risk areas. We have concluded that in all significant respects, 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 therefore anticipate issuing an unqualified VFM conclusion by 30 September 2016.

Headlines (cont.)

This table summarises the headline messages for the Authority. Sections three and four of this report provide further details on each area.

Completion	At the date of this report our audit of the financial statements is substantially complete subject to some specific queries. We have a specific query outstanding in respect of the contributions data provided to the actuary. We do not anticipate a material misstatement to arise from this query and as such all adjustments have been noted in appendix two. You are required to provide us with representations on specific matters such as your going concern assertion and whether the transactions in the accounts are legal and unaffected by fraud. We provided a draft of this representation letter to the Section 151 Officer on 02 September 2016. We draw your attention to the requirement in our representation letter for you to confirm to us that you have disclosed all relevant related parties to us. We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

KPMG

Section three: Financial Statements

Review of internal audit

Following our assessment of Internal Audit, we were able to place reliance on their work on the key financial systems.

Background

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

Work completed

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

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

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

The Public Sector Internal Audit Standards define the way in which the internal audit service should undertake its functions. Internal audit completed a self-assessment against the PSIAS.

We reviewed internal audit's work on the key financial systems and re-performed a sample of tests completed by them. We only review internal audit work that has relevance to our audit responsibilities, to effectively scope out other internal audit work from our findings.

Our review of internal audit work does not represent an external review against PSIAS, as required at least every five years.

Key findings

Based on the self-assessment performed by internal audit, our assessment of their files, attendance at Finance and Audit Committee and regular meetings during the course of the year, we have not identified any significant issues with internal audit's work and are pleased to report that we are able to place reliance on internal audit's work on the key financial systems.

Controls over key financial systems

The controls over all of the key financial systems are effective.

Work completed

We review the outcome of internal audit's work on the financial systems relating to the accounts we have identified as being significant, in order to influence our assessment of the overall control environment, which is a key factor when determining the external audit strategy.

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

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

Key findings

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

Financial system	Controls assessment
Property, Plant and Equipment	3
Cash and Cash Equivalents	3
Pension Assets and Liabilities	3
Non pay expenditure	3
Payroll	3

Key:

1 Significant gaps in the control environment

2 Deficiencies in respect of individual controls

3 Generally sound control environment

Proposed opinion and audit differences

Our audit has identified a total of two audit adjustments.

The impact of these adjustments is to:

- **Decrease the balance on the general fund account as at 31 March 2016 by £63,891;**
- **Increase the deficit on the provision of services for the year by £63,891; and**
- **Decrease the net worth of the Authority as at 31 March 2016 by £63,891.**

The wording of your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.

Proposed audit opinion

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's financial statements following approval of the Statement of Accounts by the Finance and Audit Committee on 21 September 2016.

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 two for more information on materiality) level for this year's audit was set at £600,000. Audit differences below £30,000 are not considered significant.

Our audit identified a total of two audit differences, which we set out in Appendix two. It is our understanding that one of these will be adjusted in the final version of the financial statements. This is a difference of £734,405 relating to a manual adjustment made to reverse a prior year adjustment to cash for pending cheques. The adjustment results in no net impact in the net worth of the Authority.

The uncorrected difference of £63,891 is in respect of the PFI unitary charge, which was calculated incorrectly. The impact of this adjustment is an increase in the deficit on the provision of services and a decrease in the balance on the general fund account. The net worth of the Authority also decreases by £63,891.

The tables on the right illustrate the total impact of audit differences on the Authority's movements on the General Fund for the year and balance sheet as at 31 March 2016.

Movements on the general fund 2015/16

	Pre-audit £'000	Post-audit £'000
Deficit on the provision of services	10,453	10,517
Decrease in Usable reserves	**169**	**233**

Balance sheet as at 31 March 2016

	Pre-audit £'000	Post-audit £'000
Non Current Assets	36,485	36,485
Current assets	11,520	12,254
Current liabilities	(3,125)	(3,923)
Non Current Liabilities	(305,446)	(305,446)
Net Liability	**(260,566)**	**(260,630)**
Usable reserves	13,261	13,197
Unusable reserves	(273,827)	(273,827)
Total reserves	**(260,566)**	**(260,630)**

Significant audit risks

In our *External Audit Plan 2015/16*, presented to you in March 2016, we identified the significant risks affecting the Authority's 2015/16 financial statements. We have now completed our testing of these areas and set out our evaluation following our substantive work.

This section sets out our detailed findings for each of the risks that are specific to the Authority.

Significant Risk 1

— Internal Valuation of Property

Dorset Fire Authority had a 5 year rolling programme of property valuation under the Beacon approach, though properties in two of the tranches were valued for the 2015/16 accounts. For unvisited assets, desktop reviews are performed. These reviews are performed to 1st April, therefore it is possible that errors occur due to the extrapolation of valuation of a small number of assets to the larger population through the desktop review process. Further, there is also the risk of a material movement of the asset base in the year, which would not be captured by the valuation process.
We note that whilst the CIPFA guidance stipulates a maximum time of five years between revaluations, the valuation process must ensure the assets are held at a reasonable value every year that is not materially different to fair value.

For the purposes of the new Dorset & Wiltshire Fire and Rescue Authority for the 2016/17 year, a full property revaluation was also performed at the balance sheet date by BNP Paribas, the valuation team for Wiltshire & Swindon Fire Authority properties, though this valuation was not applied to the Dorset Fire Authority balance sheet. BNP Paribas used a different valuation method, we therefore considered the valuation method adopted by the Dorset valuation team to ensure it was appropriate.

— Findings

Throughout work performed, we note that valuations to Property are being performed at the start of the year, and therefore the property portfolio's value is valued a year in arrears. From our assessment, and that of the valuer, Graham Pickard from the Dorset County Council valuation team, we note that the valuation of the Property Portfolio is prudent given the general uplift in property values in the year in Dorset.

We have considered the potential impact of changes in property values during the year, by looking at relevant market indices and discussing indicated movements in property values with the valuer. We have reviewed and tested the approach and assumptions made by Graham and his team, and conclude that the valuation is likely to be materially correct, whilst noting that due to the timing of his review that the closing value of the property is prudent, relative to the Fair Value of Assets at the end of the year.

The valuation method adopted by the valuation team is the Depreciated Replacement Cost (DRC) method, based on today's cost to build the properties, which is then depreciated to the remaining useful life. BNP Paribas use the Existing Use Value (EUV), based on current market values of similar properties. Both valuations methods are acceptable under the CIPFA code.

We have gained comfort over the competence and expertise of the valuation teams. We have reviewed the rationale for each method and, based on the valuations team's experience and judgement, conclude that the approach is reasonable.

Significant audit risks (cont.)

We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on those risks.

Going forward, the combined Authority will choose one valuation method to adopt for all properties. It must also consider the frequency of valuation of the property portfolio and the potential for a material difference between fair value and carrying value should the valuations take place during, rather than at the end of, the financial year.

If Dorset Fire Authority property assets are to be valued by BNP Paribas under the EUV valuation approach going forward for consistency with Wiltshire & Swindon Fire Authority, we note that there is likely to be a significant downwards movement in valuation.

In our *External Audit Plan 2015/16* we reported that we would consider two risk areas that are specifically required by professional standards and report our findings to you. These risk areas were Management override of controls and the Fraud risk of revenue recognition.

The table below sets out the outcome of our audit procedures and assessment on these risk areas.

Fraud risk of revenue recognition

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

In our External Audit Plan 2015/16 we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue. This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.

Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to this audit.

In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

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

Other areas of focus

In our External Audit Plan 2015/16, presented to you in March 2016, we identified one area of audit focus. This is not considered a significant risk but an area of importance where we would carry out some substantive audit procedures to ensure there is no risk of material misstatement.

We have now completed our testing. The table sets out our detailed findings.

Area of focus 1

— Combination with Wiltshire and Swindon Fire Authority

Dorset Fire Authority combined with Wiltshire & Swindon Fire Authority to form a new Authority, Dorset & Wiltshire Fire and Rescue Authority, on 1 April 2016. This combination is part of a long-term strategy to reduce costs through efficiencies gained.

It is noted that such a significant project could place a strain on the organisation where resources and management time are limited. During the 2015/16 year, management needed to focus not only on the proposed new, combined Authority, but also focus on ensuring that the current governance and policy procedures are not adversely impacted.

— Findings

Dorset Fire Authority and Wiltshire and Swindon Fire Authority received a transformation grant of £5.54m ahead of the combination. The entire grant has been received by Wiltshire and Swindon Fire Authority and included within its accounts. Dorset Fire Authority's combination costs were recovered through reimbursement from Wiltshire & Swindon Fire Authority.

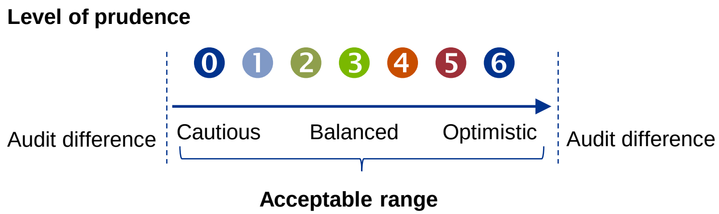
Transactions included within the financial statements relating to the combination have been reviewed to ensue they have been accounted for correctly. At year end there are debtor and creditor balances between Dorset and Wiltshire & Swindon in respect of the combination and we have agreed significant balances back to supporting documentation and the corresponding debtor or creditor to Wiltshire & Swindon Fire Authority's accounts.

As the combination has resulted in a reorganisation of roles and 11 voluntary redundancies, we reviewed redundancy costs during the year. We have gained comfort over the cost presented in the accounts by agreeing a sample of redundancy costs to their supporting calculations and agreements.

We also considered the impact of the combination during our risk assessment for the 2015/16 VFM conclusion. KPMG reviewed plans and documents around the combination and had discussions with key management personnel. From these we identified only minor recommendations, which were not considered significant overall. In general, the transition process has been well managed with controls put in place to address identified risks. Following the combination we note that the process has been relatively smooth with no major concerns. Further detail on our VFM work provided in section 4.

Judgements

We always consider the level of prudence within key judgements in your financial statements. We have summarised our view below using the following range of judgement:



Assessment of subjective areas			
Asset/liability class	**15/16**	**Balance (£m)**	**KPMG comment**
Property, Plant and Equipment (valuations / asset lives)	1	£36 million *(PY: £33 million)*	Due to the timing of the revaluation process being performed at the start of the year and then the depreciation charge processed, a fair value at year end would likely be higher. Consequently, we assess this to be very prudent.
Pension liability	3	£282 million *(PY: £287 million)*	Includes a number of judgement areas: discount rate, inflation, salary growth and life expectancy. These have been advised by the actuary. The discount rate and inflation assumptions were slightly above the range which we would expect. Sensitivity analysis revealed that the net effect is minimal. Consequently we assess this to be balanced.
Provisions	3	*£165k* *(PY: £181k)*	Rationale for assessing provisions on individual basis appears reasonable as the provision is derived by the recommendation of the in-house legal team, and is not indicative of an overly cautious or optimistic approach.
Accruals	3	*£228k* *(PY: 124k)*	Relating to Accumulated Absences. We have tested the accruals balance with no issues identified and consider the related disclosures to be proportionate. Calculation is deemed balanced.

Accounts production and audit process

The Authority has a well established and good accounts production process. This operated well in 2015/16, and the standard of accounts and supporting working papers was good.

Officers dealt efficiently with audit queries and the audit process could be completed within the planned timescales.

Accounts production and audit process

ISA 260 requires us to communicate to you our views about 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.

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The Authority continues to maintain a good financial reporting process and produce statements of accounts to a good standard. We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a complete set of draft accounts on 01/07/2016. The Authority made a small number of amendments of a presentational nature after this date but made the audit team aware that this is likely to occur.
Quality of supporting working papers	The quality of working papers provided was good and met the standards required for the purposes of our audit.
Response to audit queries	Officers resolved the majority of audit queries in a reasonable time.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's 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 Fire Authority for the year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and Dorset Fire 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 four 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 Director of Finance for presentation to the Dorset & Wiltshire Fire and Rescue Authority Finance and Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

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

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with management;
- Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc.).

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

Section four: Value for Money

VFM Conclusion

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

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

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.

Background

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'.

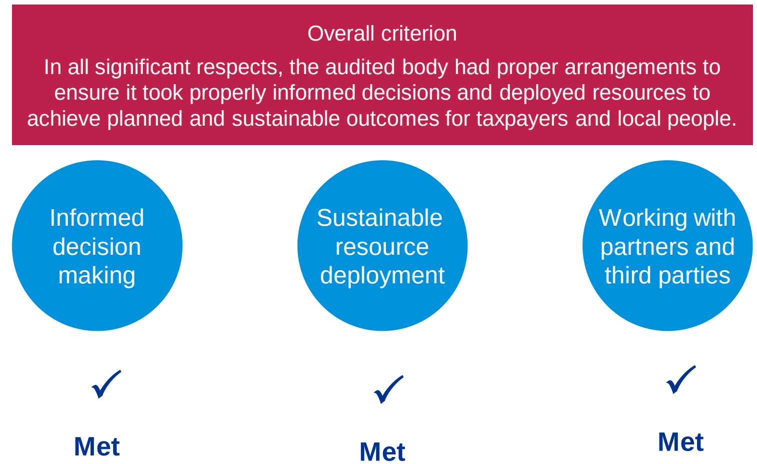
This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

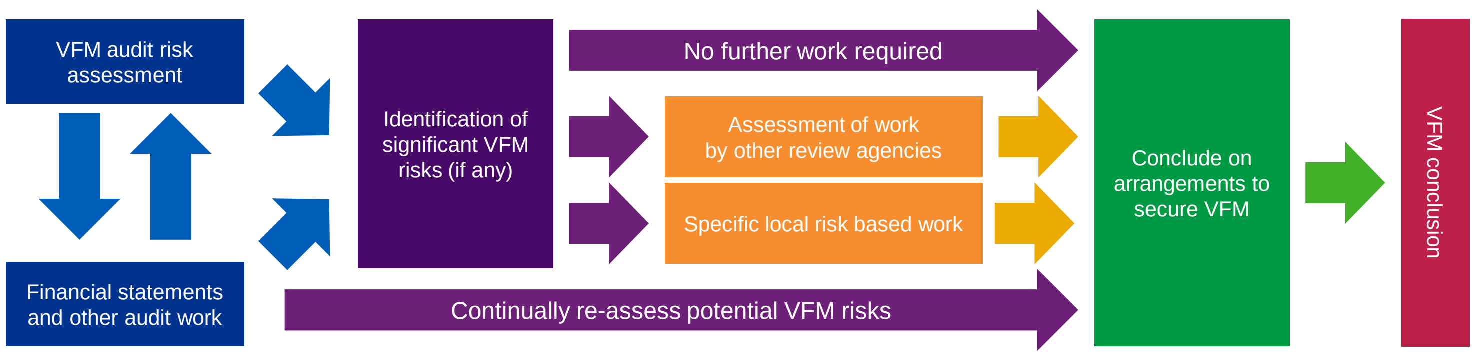
The VFM approach is fundamentally unchanged from that adopted in 2014/2015 and the process is shown in the diagram below. However, the previous two specified reporting criteria (financial resilience and economy, efficiency and effectiveness) have been replaced with a single criteria supported by three sub-criteria.

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

Conclusion

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.





Specific VFM Risks

We have identified one specific VFM risk.

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

Work completed

In line with the risk-based approach set out on the previous page, and in our *External Audit Plan* 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, inspectorates and review agencies in relation to these risk areas; and

— Completed specific local risk based work.

Key findings

Below we set out the findings in respect of those areas where we have identified a residual audit risk for our VFM conclusion.

We concluded that we needed to carry out additional work for the risk. This work is now complete and we also report on this below.

Key VFM risk	Risk description and link to VFM conclusion	Assessment
Combination with W&S Fire Authority	To help address identified funding gaps within the MTFP the Authority combined with Wiltshire and Swindon Fire Authority on 1 April 2016. Preparation for the combination occurred throughout 2015/16. Significant time and resource have been spent to effectively plan and deliver a successful combination. At the same time the Authority have also had to ensure that governance arrangements remained fit for purpose. This is relevant our considerations of whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes, when forming our VFM conclusion	**Specific risk based work required: Yes** Building on, and taking account of, the findings from our first phase of work on the combination last year, we have reviewed the preparedness of the two fire Authorities for the formation of the new combined Dorset & Wiltshire Fire and Rescue Authority. We looked specifically at the areas of Strategy and Leadership, and People. The review in December 2015 revealed that governance arrangements were working well, with one recommendation raised. This was that clear communications should be provided to officers around the remaining timescale of the combination and plans to ensure consultation responses were taken into consideration. It should be noted that the recommendation was not considered significant overall. We reviewed these areas as part of our specific local risk based work.

Specific VFM Risks (cont.)

The combination process was well managed, with controls being implemented to address key risks. The actual transition was smooth with no major issues. We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2016.

Key VFM Risk	Assessment (cont.)
Combination risk (cont.)	As part of our specific local risk based work we reviewed plans and documents around the combination and held discussions with key management personnel. We considered the internal auditor's, Swindon Internal Audit Services, report on the preparedness in relation to Finance, ICT, Programme Management and Policies and Procedures. Findings stated that internal controls are in place and operating effectively and risks are well managed. Two recommendations were raised, being a need to produce training plans and a project plan around the migration of the two Authorities accounting systems. The recommendations were not considered significant overall. The combined Authority's risk register was reviewed. Appropriate plans for the transition were in place, with controls being implemented to address risks identified. We considered the latest MTFP and integration of this into the combination with Wiltshire & Swindon Fire Authority. The projected savings from the combination are currently forecast to be just under £6m. The new Authority will be using its general reserves and balances and transformation reserves to support the transformation, associated transition costs and forecast budget deficits. The MTFP acknowledges the potential for further government funding reductions and therefore allows the Authority to model the impact this may have. Following our initial recommendation around communication and consultation with officers, we considered whether any steps had been taken to address this. Review of the Dorset Fire Authority website revealed that officers were kept informed of the transition process with new ways of working and roles being communicated. Officers were also given the opportunity to provide feedback. We can see progress was made on the recommendation and overall it was not considered significant. Ongoing liaison with the members of both the old Authority and combined Authority since the combination revealed that the transition process has been well controlled with no major issues having arisen. We have not identified any issues that contradict our findings above, the combination process has been well managed and as such there are no issues which impact on our VFM conclusion. We anticipate concluding that 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 therefore anticipate issuing an unqualified VFM conclusion by 30 September 2016.

VFM – 2015/16 outturn

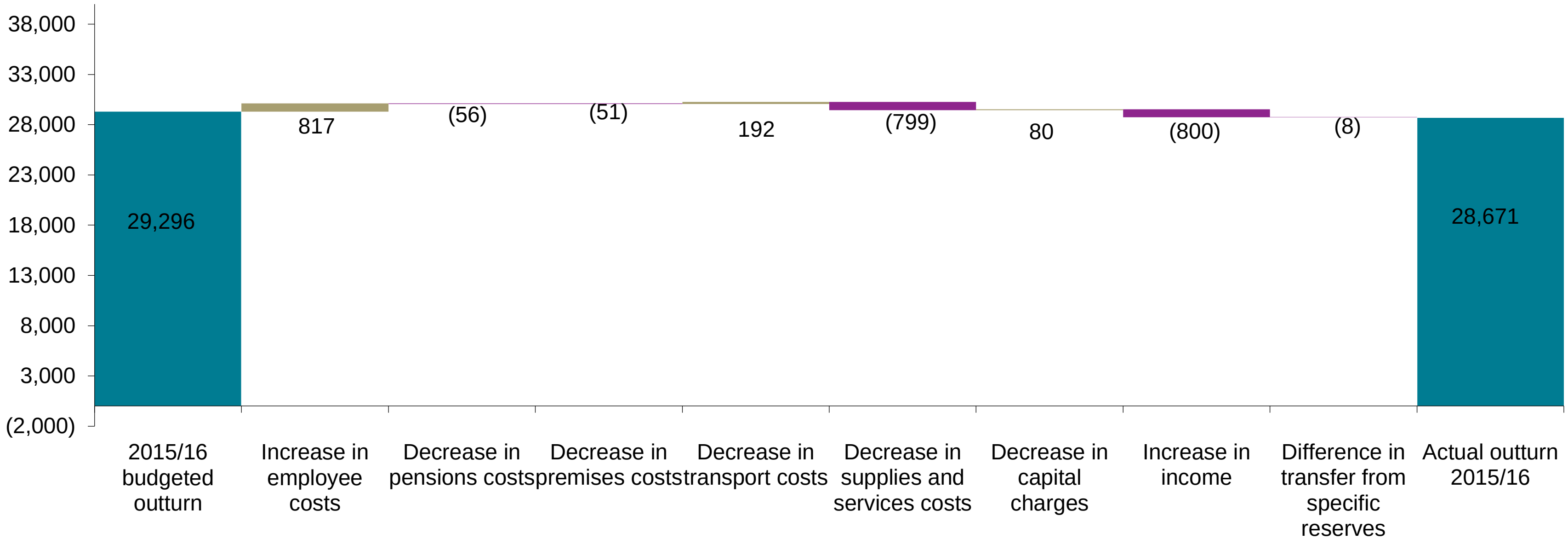
2015/16 outturn

In considering the Authority's arrangements for sustainable resource deployment, we reviewed the outturn position against original plans, as well as identifying specific one off transactions to identify the normalised position 2015/16. The in-year position was achieved despite variations resulting in an underspend of £625k from a total spend of £28.7m.

The Authority set itself challenging cost savings as a result of the cut to Government Funding of £556k in 2015/16. Per the analysis below, we have seen that the actual outturn of £28.7m is in line with the budgeted outturn of £29.3m. Decreases in spend against budget have occurred in supplies and services, premises and pensions, however, these have been partially offset by increased employee costs.

The Authority's combination with Wiltshire and Swindon Fire Authority was a direct response to funding cuts and the projected savings are currently forecast to be just under £6m in total by 2018/19. The combined Authority is committed to providing a better service despite the ongoing cuts to funding.

Comparison of budgeted outturn with actual (amounts in £'000)



Source: Outturn to budget per accounts

Appendices

Appendix one

Key issues and recommendations

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

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

Priority rating for recommendations					
❶	***Priority one***: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	❷	***Priority two***: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	❸	***Priority three***: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
1	❷	**Revaluation of Assets** The valuation process of assets is performed to be effective as at the start of the year, thus the asset values may have moved significantly by year end. **Timeliness** Undertake property asset valuations as close as possible to year end to reduce the risk of material misstatement.	The approach taken for valuation of assets will be reviewed for the new Dorset & Wiltshire Fire and Rescue Authority, applicable as from the 2016/17 financial year. **Responsible officer:** Sue Harries, Estates Officer **Due date:** During 2016/17
2	❸	**Timely review of bank reconciliations** There were a couple of instances where bank account reconciliations had been prepared, but were not reviewed until two months later. **Timeliness** Review bank reconciliations as close to when they were prepared as possible. This will reduce the risk of reconciling items not being identified and investigated in a timely manner.	Bank reconciliations are completed on a weekly basis and issues cleared as they arise. The approval delay was a result of staff absence on long-term sickness, along with pressures of other work. Procedures used by Dorset & Wiltshire Fire and Rescue Authority will apply in future.

Key issues and recommendations (cont.)

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

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

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
3	3	**Evidence of bank reconciliations reviews is consistent** Bank reconciliations contain two spreadsheets which should be signed once reviewed. There were a couple of instances where only one of the spreadsheets was signed as reviewed. **Recommendation** Ensure both reconciliation sheets are signed once reviewed. This will provide evidence that a full review has been conducted.	Noted. Procedures used by Dorset & Wiltshire Fire and Rescue Authority will apply in future.

Audit differences

This appendix sets out the significant audit differences identified during the audit for the year ended 31 March 2016.

We are reporting all audit differences over £30,000.

It is our understanding that one of the two adjustments will be adjusted.

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 Dorset & Wiltshire Fire and Rescue Finance and Audit Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

Corrected audit differences

The following table sets out the significant audit differences identified by our audit of Dorset Fire Authority's financial statements for the year ended 31 March 2016. These had been adjusted in the updated draft received on 7 September 2016.

No.	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Basis of audit difference
1			Dr Cash and Cash equivalents £734,405	Cr Other payables £734,405		This relates to a reversal of a manual adjustment. The initial adjustment was made in the prior year to cash for pending cheques. The adjustment had been incorrectly reversed in the current year.
			Dr £734,405	**Cr £734,405**		**Total impact of adjustments**

Key non material audit difference that have been corrected

A number of minor amendments focused on presentational improvements have also been made to the draft financial statements as part of the statutory account preparation.

Audit differences (cont.)

The cumulative impact of uncorrected audit differences is £63,891.

This is below our materiality level of £600,000.

Uncorrected audit differences

The following table sets out the uncorrected audit differences identified by our audit of Dorset Fire Authority financial statements for the year ended 31 March 2016.

Impact						
No.	**Income and expenditure statement**	**Movement in reserves statement**	**Assets**	**Liabilities**	**Reserves**	**Basis of audit difference**
1	Dr Unitary Charge Expense £63,891	Dr Deficit on provision of services £63,891		Cr Unitary charge liability £63,891		The unitary charge on the PFI assets was not calculated correctly in the period due to an error in a spreadsheet formula.
	Dr £63,891	**Dr £63,891**	**-**	**Cr £63,891**	**-**	**Total impact of uncorrected audit differences**

Materiality and reporting of audit differences

For 2015/16 our materiality is £600,000 for the Authority's accounts.

We have reported all audit differences over £30,000 for the Authority's accounts.

Materiality

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 2015/16, presented to you in March 2016.

Materiality for the Authority's accounts was set at £600,000 which equates to around 2 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to Dorset & Wiltshire Fire and Rescue Authority's Finance and Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Finance and Audit Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

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

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

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £30,000 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 Audit Committee to assist it in fulfilling its governance responsibilities.

Accounts Payable - Data Analytics

Driving more value from the audit through data and analytics

Technology is embedded throughout our audit approach to deliver a high quality audit opinion.

We strive to deliver new quality insight into your operations that enhances our and your preparedness and improves your collective ‘business intelligence.’

Key Findings

To support our audit approach and to provide insight into the Authority’s Non-Pay Expenditure, we have conducted data & analytics on the Accounts Payable system for the year to 31 March 2016. Such tests enable us to assess inconsistencies within the accounts payable data.

From our testing, we have noted no inconsistencies within the data set, and will incorporate the results of this year’s testing into our 2016/17 audit, to build up a better understanding of the accounts payable ledger in the forthcoming years.

As an example, our assessment of the invoice listing shows that 99% of invoices are below £100,000. However, 0.5% of the purchases are above £500,000, and these account for 54% of the value of purchases in the year.

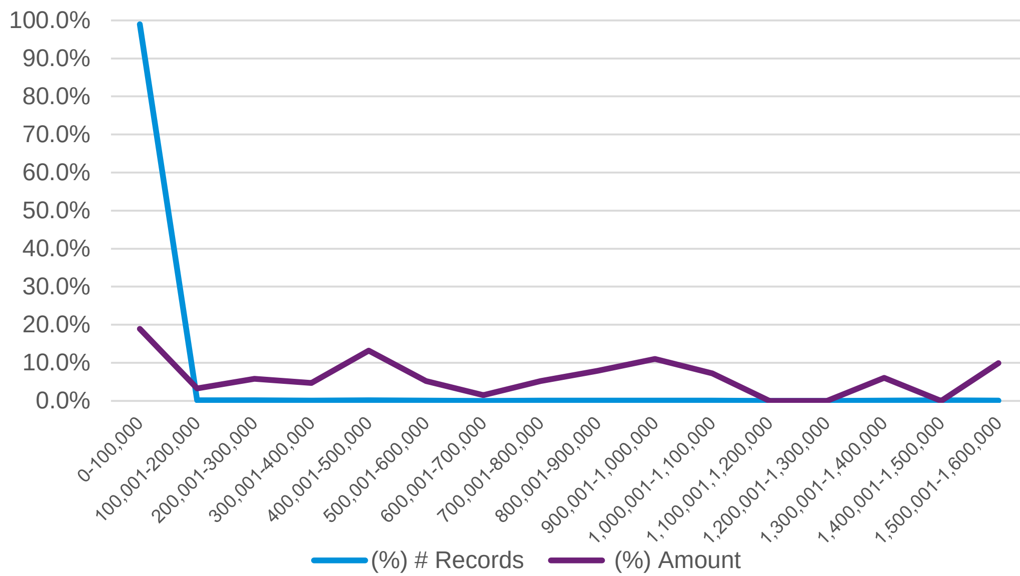
This is in line of our understanding of the nature of the Purchases a Fire Authority would make, and is in line with our other audit testing.

Other tests that we have performed using Data and Analytics include:

- Assessment of invoices by value and number per month
- Number of unauthorised purchase orders and invoices
- Instances where supplier invoices predate purchase orders

There were no instances where the data analysis was inconsistent with our other audit procedures.

Assessment of Purchases by % of invoices and % of total value



Declaration of independence and objectivity

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice.

Requirements

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

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

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

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

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.
- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our *Annual Audit Letter*.

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

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

Declaration of independence and objectivity (cont.)

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

General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the *Ethics and Independence Manual* ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual ethics and independence confirmation. Failure to follow these policies can result in disciplinary action.

Auditor declaration

In relation to the audit of the financial statements of Dorset Fire Authority for the financial year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and Dorset Fire Authority or 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.

Appendix four

Audit Independence

Audit Fees

Our fee for the audit was £24,378 plus VAT (£37,504 in 2014/15). This fee was in line with that highlighted within our audit plan agreed by the Dorset Fire Authority Audit & Scrutiny Committee in March 2016. Our fee for additional VFM work performed over the combination for the year above the PSAA scale fee was £3,000 plus VAT (£3,750 in 2014/15).

Description of service	2015/16 Audit (£)	2014/15 Audit (£)
Audit Fees	24,378	37,504
Fee related to additional VFM work due to the combination	3,000	3,750
Total Estimated Fees	**27,378 (plus VAT)**	**41,254 (plus VAT)**

2015/16 Audit (£)

kpmg.com/uk

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

KPMG LLP is multi-disciplinary practice authorised and regulated by the Solicitors Regulation Authority. For full details of our professional regulation please refer to ‘Regulatory Information’ at www.kpmg.com/uk