External Audit Report 2015/16

Dorset County Council

—

September 2016

Contents

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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 Harry Mears, 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

Section one

Introduction

This document summarises:

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

Scope of this report

This report summarises the key findings arising from:

- Our audit work at Dorset County Council ('the Authority') in relation to the Authority's 2015/16 financial statements and those of the Local Government Pension Scheme it administers ('the Fund'); 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 June 2016, set out the four stages of our financial statements audit process.

Planning → Control Evaluation → Substantive Procedures → Completion

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

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.

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 and the fund.
- Section 4 outlines our key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1. We have also reviewed your progress in implementing prior recommendations.

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 and the Fund. Sections three and four of this report provide further details on each area.

This table summarises the headline messages. 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. We also anticipate issuing an unqualified audit opinion in relation to the Fund's financial statements, as contained both in the Authority's Statement of Accounts and the Pension Fund Annual Report by 30 September 2016.
Audit adjustments	Our audit has identified audit adjustments in relation to debtors of £1.6 million (net) and a pension adjustment in relation to the treatment of the transfer of employees to Tricuro. The debtors adjustment is a balance sheet reclassification and therefore has no impact on the overall position. We have included a full list of significant audit adjustments at Appendix two.
Key financial statements audit risk	We review risks to the financial statements on an ongoing basis. We identified the following key financial statements audit risk in our 15/16 External audit plan issued in June 2016. — The Valuation of PPE We have worked with officers throughout the year to discuss this key risk and our detail findings are reported in section 3 of this report.

Headlines (cont.)

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

This table summarises the headline messages. The remainder of this report provides further details on each area.

Accounts production and audit process	We received complete draft accounts by 6 June 2016 in accordance with the DCLG deadline. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Code. The Authority has implemented the majority of the recommendations in our *ISA 260 Report 2014/15* relating to the financial statements. The Authority has good processes in place for the production of the accounts and good quality supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales. As in previous years, we have had a debrief with the Closedown team to share views on the final accounts audit. Hopefully this will lead to further efficiencies in the 2016/17 audit process. 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 did not identify any significant VFM risks in our External audit plan 2015/16 issued in June 2016. We followed up on the prior year VFM risk “The Oversight of partnerships” that was identified as part of our VFM work in the prior period. We found that the Authority took appropriate action during the year to address the issues that were raised in the prior year in relation to the Dorset Waste Partnership. As part of the current year approach, we reviewed the work undertaken by the Internal Audit team and no issues were identified which would impact on the current year financial statement audit. 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 VFM conclusion by 30 September 2016.

Headlines (cont.)

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

This table summarises the headline messages. The remainder of this report provides further details on each area.

Completion	At the date of this report our audit of the financial statements is complete. 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 8th 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.

Section three: Financial Statements

Proposed opinion and audit differences

Our audit has identified three audit adjustments.

The impact of these adjustments is to reduce reserves by £18.7m and to increase long term liabilities by £18.7m. In addition to this debtors and creditors have decreased by £1.6m.

Proposed audit opinion

We anticipate issuing an unqualified audit opinion on the Authority's financial statements following approval of the Statement of Accounts by the Audit & Governance Committee on 20 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 £5.875 million. Audit differences below £0.294 million are not considered significant.

We identified a material adjustment in relation to the pension liability for Tricuro. We also identified two significant audit adjustments in relation to a balance sheet re-classification and an error in relation to debtors and creditors.

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.

The net impact on the General Fund as a result of audit adjustments is nil.

Movements on the general fund 2015/16

£m	Pre-audit	Post-audit	*Ref (App.3)*
Deficit on the provision of services	(10,211)	(33,658)	
Adjustments between accounting basis and funding basis under Regulations	65,342	88,789	
Transfers to earmarked reserves	(59,175)	(59,175)	
Decrease in General Fund	(4,044)	(4,044)	

Balance sheet as at 31 March 2016

£m	Pre-audit	Post-audit	*Ref (App.3)*
Property, plant and equipment	819,326	819,326	
Other long term assets	4,629	4,629	
Current assets	92,637	90,992	*1,3*
Current liabilities	(90,072)	(88,427)	*1,3*
Long term liabilities	(802,635)	(821,356)	*2*
Net worth	23,885	5,165	
General Fund	27,857	27,858	*2*
Other usable reserves	73,465	73,465	
Unusable reserves	(77,437)	(96,158)	*2*
Total reserves	23,885	5,165	

Proposed opinion and audit differences (cont.)

We have identified no issues in the course of the audit of the Fund that are considered to be material.

We anticipate issuing an unqualified audit opinion in relation to the Fund's financial statements, as contained both in the Authority's Statement of Accounts and the Pension Fund Annual Report by 30 September 2016.

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

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

Pension fund audit

Our audit of the Fund also did not identify any material misstatements.

For the audit of the Fund we used materiality level of £24 million. Audit differences below £1.2 million are not considered significant.

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion following approval of the Statement of Accounts by the Audit & Governance Committee on 20 September 2016.

In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the Code. We understand that the Fund will be addressing these where significant.

Annual governance statement

We have reviewed the Annual Governance Statement and confirmed that:

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

Annual report

We have reviewed the Authority's annual report and can confirm it is not inconsistent with the financial information contained in the audited financial statements.

Pension fund annual report

The Pension Fund Annual Report has not been prepared yet and we are yet to confirm that the financial and non-financial information it contains is not inconsistent with the financial information contained in the audited financial statements.

The statutory deadline for publishing the document is 1 December 2016. We will need to complete additional work in respect of subsequent events to cover the period between signing our opinions on the Statement of Accounts and the Pension Fund Annual Report.

Significant audit risks

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.

In our External Audit Plan 2015/16, presented to you in June 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.

The table below sets out our detailed findings for each of the risks that are specific to the Authority.

Significant Risk 1

Valuation of Property

The CIPFA Code of Practice on Local Authority Accounting requires that property is re-valued with sufficient frequency to ensure that there is not a material difference between the fair value of the assets and their carrying value, and in any case at a frequency of at least every five years.

Historically, Dorset County Council has performed annual revaluations on a representative sample of a tranche of 20% of the property assets per year. Taking these valuation movements into account, a desktop valuation was applied to the other 80% of property assets. The valuation was performed as at the start of each financial year.

There is a risk therefore that movements in property values during the year could result in a misstatement in the value of Dorset County Council's property portfolio.

Findings

As part of our audit work, we ensured that we were satisfied that the process for valuations was robust and that the valuations were calculated on a reasonable basis. This included determining whether the Authority had considered indicators of property value movements between the date of property valuation and the balance sheet date, looking at the indices used and the basis of valuation as well as a wider discussion with the Authority's valuer to understand their approach to the valuation and the assumptions and judgements that they had applied .

We additionally evaluated the expertise of the preparer of the valuation report to ensure that they were sufficiently skilled and appropriately qualified such that we could rely on them for the provision of audit evidence.

Significant audit risks

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.

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.

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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 June 2016, we identified one area of audit focus. his 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 for this area of audit focus.

Area of focus 1 - Preparation of Group Accounting

— Area

During the year, Dorset County Council formed a Local Authority Trading Company (LATC) along with Bournemouth Borough Council and Borough of Poole Council to which it transferred its supplier-side Adults' Services. This LATC, Tricuro Support Ltd (TSL), is owned by the controlling authorities, and owns 100% of Tricuro Ltd (TL). Tricuro started trading on 1 July 2015, following the TUPE transfer of all staff involved in delivering the service from the controlling authorities.

From an accounting perspective, Dorset County Council has determined this LATC to be a joint venture in the form of a jointly controlled entity. As Dorset County Council's investment in the joint venture is considered to be material, Dorset County Council will therefore be required under IFRS and the CIPFA Code to prepare group accounts to correctly account for this under the accounting standards.

— Findings

We have been liaising with Dorset County Council's finance team since the early planning stages of this audit around the classification of Tricuro within Dorset County Council's accounts.

We have reviewed the accounting justification working papers that the finance team drafted to support the proposed accounting treatment, and we have focused our audit work to consider the appropriateness of the presentation and disclosure of Tricuro in Dorset County Council's group and parent accounts.

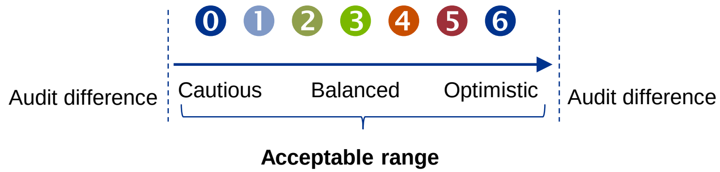
We identified some issues for consideration around the treatment of the Tricuro pension for employees transferred from Dorset County Council to Tricuro. The Authority subsequently reviewed the treatment of the pension and with the support of the actuary this was adjusted in the Dorset County Council accounts.

We have not identified any issues in relation to the preparation of the Group accounts in the current financial year.

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:

Level of prudence



Assessment of subjective areas				
Asset/liability class	**15/16**	**14/15**	**Balance (£m)**	**KPMG comment**
Provisions	3	3	£3.3 million *(PY: £4.5million)*	The provision balance is calculated on a consistent basis year on year and is deemed to be calculated on a reasonable basis.
Deferred income	3	3	£10 million *(PY: £5.5 million)*	We consider the related disclosures to be proportionate, and deferred income has been calculated on a consistent basis year on year.
Debtors provisioning	3	3	£1.9 million *(PY: £1 million)*	The Authority has calculated its debtors provision consistently year on year and it is deemed to be calculated on a reasonable basis.
Property, Plant and Equipment (valuations / asset lives)	3	3	£405.8 million *(PY: £397.7 million)*	We have reviewed the valuation of PPE and the assumptions behind the valuation and the valuation basis appears reasonable.
Pensions	3	3	£639 million *(PY: £598.8 million)*	We have reviewed the actuarial assumptions for the current financial year and deem them to balanced and within the acceptable range.

Accounts production and audit process

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

The Authority has implemented the majority of the recommendations in our ISA 260 Report 2014/15.

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	We consider that accounting practices in relation to financial reporting are appropriate.
Completeness of draft accounts	We received a complete set of draft accounts on 6th June 2016. The Authority made amendments after this date in relation to the pension fund and a number of minor presentational adjustments that were identified as part of our audit.
Quality of supporting working papers	Our *Final audit PBC list*, which we issued on 26th May 2016 and discussed with Richard Ironside, set out our working paper requirements for the audit. The quality of working papers provided was as per the standards specified in our PBC list.
Response to audit queries	Officers resolved the majority of audit queries in a reasonable time. We experienced some delays relating to our queries on the valuation of PPE from the Authority's valuer.

Element	Commentary
Group audit	To gain assurance over the Authority's group accounts, we placed reliance on work completed by the KPMG audit team on the financial statements of Tricuro. There are no specific matters to report pertaining to the group audit.
Pension Fund Audit	The audit of the Fund was completed alongside the main audit. There are no specific matters to bring to your attention relating to this.

Additional findings in respect of the control environment for key financial systems

We noted that in some cases bank reconciliations were not being reviewed on a timely basis and we have raised a recommendation in relation to this.

As part of our data analytics work on accounts payable we identified some cases where there were invoices and goods received notes pre-dating the PO.

Prior year recommendations

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

The Authority has implemented the majority of the recommendations in our *ISA 260 Report 2014/15*. There are still some improvements to be made around the IT environment, however, we have noted through liaison with internal audit that there have been improvements in this area.

Appendix one provides further details.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's 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 County Council and Dorset County Pension Fund for the year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and Dorset County Council and Dorset County Pension Fund, 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 Finance manager for presentation to the Audit & 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.

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.

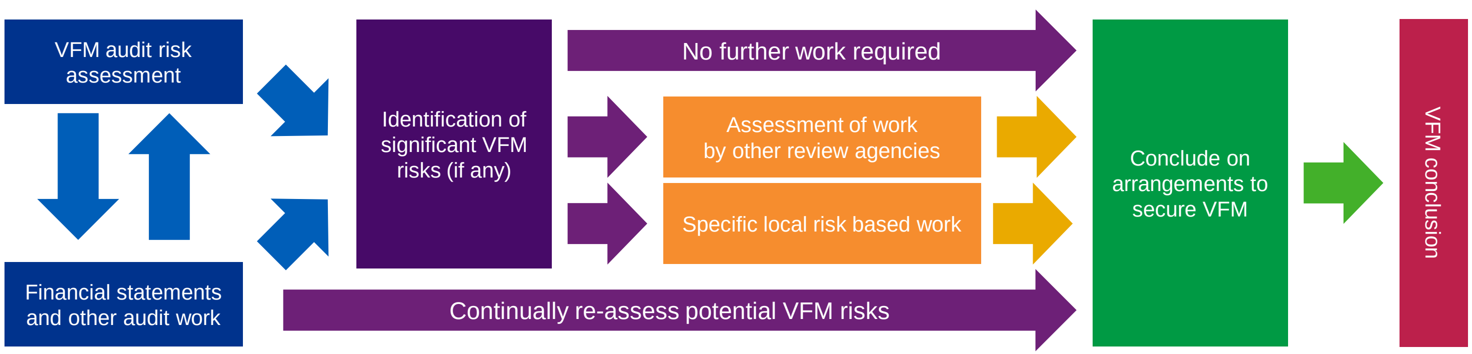
Background

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.'

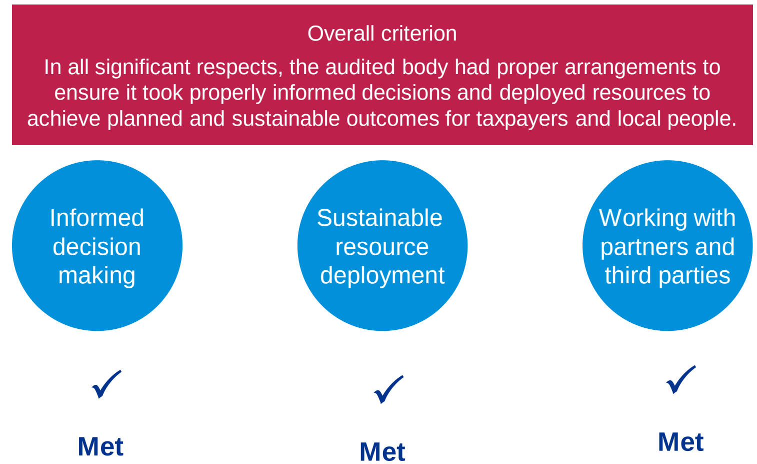
The VFM approach is fundamentally unchanged from that adopted in 2014/2015 and the process is shown in the diagram below. However, the previous two specified reporting criteria (financial resilience and economy, efficiency and effectiveness) have been replaced with a single criteria supported by three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

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

Work completed

In line with the risk-based approach set out 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:

— We have considered risks identified in the prior period and we have performed procedures to determine if they represent a risk in the current year.

— We have also considered the financial standing of The Authority as part of our risk assessment process and did not identify significant risks to VFM as result of this 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 did not need to carry out additional work for these risks as there was sufficient relevant work that had completed by the Authority, inspectorates and review agencies in relation to these risk areas.

VFM - 2015/16 outturn

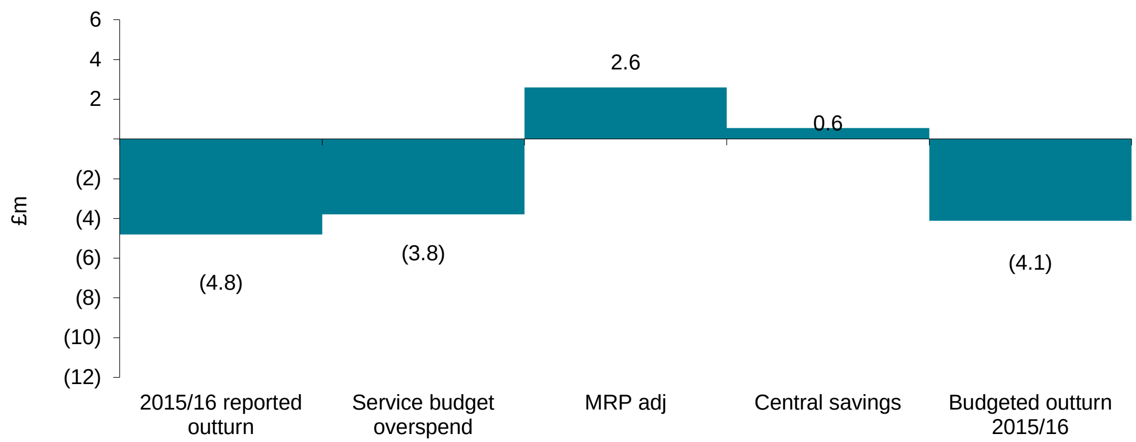
2015/16 outturn

In considering the Authority's arrangements for securing financial resilience, 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 against planned budget of £3.8 million of unplanned expenditure.

The Authority continued to set itself challenging cost savings during the year in order to support its financial position. The Authority achieved savings of £15.3 million against a £15.3 million plan (100%), a continuation of strong delivery against last year's £8.4 million savings. Total savings equate to 4.6% of operating costs (2.7% in 2014/15). The Authority reported an overall overspend on its net expenditure budget for 2015/16 and there was a significant overspend of £4.8 million in Children's services.

Mitigating actions included further review of reserves and carry forwards, including savings identified through the review of the minimum revenue provision and its reconciliation to the capital financing requirement over an historical period of seven years. The impact of this was the identification of £3.2 million of savings in the current year to mitigate the above overspends.

2015-16 Outturn versus budget



Appendices

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.

We will formally follow up these recommendations next year.

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	❸	**Review of bank reconciliations** We noted that in some cases bank reconciliations were not reviewed until the month after they had been completed. There is a risk that errors are not identified on a timely basis and that reconciling bank items are not cleared on a timely basis. **Recommendation** It is recommended that The Authority ensures that the review of bank reconciliations is performed promptly to avoid errors and to ensure that outstanding items are cleared on a timely basis.	Agreed. All bank reconciliations are up to date and authorised. There is now more resilience in the authorisation process as more staff are involved. Implemented during 2015/16. **Sarah Baker** **Group Finance Manager, Corporate Finance**
2	❷	**PO and GRN prior to invoice date** We noted as part of work on accounts payable data analytics that there were 12,614 cases where a PO was dated after the invoice date and 441 cases where a GRN was dated prior to the PO date. This therefore indicates that goods and services are being ordered/arranged prior to going through the appropriate authorisation process. **Recommendation** It is recommended that training should be provided and staff should be reminded of the importance of obtaining authorisation prior to procuring goods and services.	The current procure-to-pay review will pick up these concerns and develop a model which best fits the need for authorisation and recording of commitments as well as reducing process burden on the business. Due date 2016/17. **In progress, responsible officer to be confirmed.**

Follow up of prior year recommendations

The Authority has implemented the majority of the recommendations in our *ISA 260 Report 2014/15*.

This appendix summarises the progress made to implement the recommendations identified in our ISA 260 Report 2014/15 and re-iterates any recommendations still outstanding.

Number of recommendations that were:	
Included in original report	4
Implemented in year or superseded	1
Remain outstanding (re-iterated below)	3

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at July 2016
1	2	**Supporting evidence for starters and leavers to the pension fund** For 7 new members of the pension fund in the year, out of a sample of 25, we were unable to agree that the correct contribution rate had been applied as the supporting documentation was still in the process of being scanned so was not available to review. Some of the documentation had been sent off for scanning several months ago and was still not available. Similarly, for 4 leavers of the scheme, out of a sample of 25, we were unable to agree to member records as the files were still being scanned. **Recommendation** Documents should be scanned onto the system on a timely basis to ensure that the data on the system is supported by evidence.	Documents to be scanned are sent to the external provider every two weeks and are usually returned 2 weeks later. There was a period over year-end where the turnaround from the provider was nearly six weeks. If, however, the team urgently needs any of the documents whilst they are with the external provider a request can be made and a scanned version of the documents is securely sent to the team by the provider by the end of the next day. It is in the Pension Fund business plan to investigate scanning documents within the team, and this will therefore remove any potential for these occurrences in the future. **Anne Weldon** **Pensions Manager**	Not yet implemented It is the intention to ensure that all documents are scanned internally in the 2016/17 year.

Follow up of prior year recommendations (continued)

The Authority has implemented the majority of the recommendations in our *ISA 260 Report 2014/15*.

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at July 2016
2	3	**Timeliness of pension fund bank reconciliations** Bank reconciliations are completed on a weekly basis and should be reviewed within a week of the date of preparation. Our testing identified that the year end bank reconciliations had been marked as prepared over a month after year end and reviewed two weeks after that. The delay in preparation and review means any issues will not be identified on a timely basis and may be more difficult to resolve as a result. **Recommendation** Bank reconciliations should be prepared and reviewed on a more timely basis after the date of the reconciliation.	Bank reconciliations are completed on a weekly basis and issues cleared as they arise. However, at year end the issue is that all old year documents must be cleared before the weekly reconciliations can be marked as final. The approval delay was a result of staff absence on long-term sickness along with pressure of other work which is inevitably becoming more common across the Service. **Sarah Baker** **Group Finance Manager (Corporate Finance)**	Implemented. This was due to staff absence and therefore there have been no further issues identified in 2015/16.

Follow up of prior year recommendations (continued)

The Authority has implemented the majority of the recommendations in our *ISA 260 Report 2014/15*.

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at July 2016
3	❸	**Procurement process procedural checklist** From a review of the procurement process in place within the Authority, it is noted that a formal procedural checklist is not established which outlines the steps/ requirements that should be completed when goods or services are procured. Whilst we acknowledge the need to reduce the administrative burden of staff, the recording and evidencing of compliance with procurement rules will serve as a safeguard to ensure that all steps have been followed and that the procurement process has been conducted in a legal and transparent way. **Recommendation** A formal procedural checklist which outlines the steps/ requirements that are required to be completed when procuring goods or services should be introduced as a mandatory requirement for employees to complete.	An electronic toolkit has been developed, which provides a checklist process for undertaking procurement. This is enhanced by the mandatory use of the e-tendering system which has embedded approval steps. We have had to delay the role out to tie in with the *Smarter Computing* agenda but we are now able to update the web pages and get the communications for this new toolkit and process out to Directorates and formally through the Commissioning and Procurement Board. **Karen Andrews** **Head of Procurement**	Partially implemented. A procurement toolkit was approved in March 2016 and is currently being rolled out across the council.

Follow up of prior year recommendations (continued)

The Authority has implemented the majority of the recommendations in our *ISA 260 Report 2014/15*.

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at July 2016
4	2	Adequacy of the IT General control environment in place to support the operation of the Dorset Enterprise System (DES). As part of the 2012-13 Internal Audit plan, SWAP undertook a detailed review to assess the adequacy of the key IT controls and procedures in place to support the operation of the Dorset Enterprise System (DES). The findings of the review identified 30 individual recommendations across the key IT controls areas (access to systems and data, system changes and maintenance, development of new systems and applications and computer operations and end-user computing). **It is recommended that the Authority consider the individual recommendations within the Key financial controls (DES) ICT controls internal audit report as a matter of urgency and ensure that an appropriate action plan is established to address the issues identified within an appropriate time frame.**	Audits continue to be prioritised and completed. Of the 9 outstanding actions from the 2014/15 update, disaster recovery and the associated business continuity plans remain the only items to be fully addressed. The latest 2014/15 report indicates 12 new recommendations, three of which are those DR and BCP issues which were carried forward. Of the latest 12 recommendations, 1 is complete, 1 is agreed as being not applicable and the remaining 9 have target dates between September 2015 and June 2016. Disaster Recovery has been progressed significantly by the DES infrastructure refresh project such that we can deliver DES functionality in the event of a DCC data centre failure. However full business testing and an end-to-end business continuity exercise cannot be completed until the Smarter Computing project has finished. **Richard Pascoe Head** **of ICT**	Partially implemented. The report to Audit & Scrutiny Committee in November 2015 indicated 4 risk areas (accounting for multiple individual risks). The internal audit review of these areas indicated that improvements had been made and issues addressed for items 1 to 3. There were no new recommendations for these areas. Risk area 4 (ICT service continuity arrangements for DES) – a significant ICT service continuity test was conducted in July 2016. The test results are reported as a 'success' in proving that 'the DES continuity solution and documentation is fit for purpose'. A number of upgrades are currently being implemented to the DES infrastructure.

Audit differences

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

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 Audit & 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.

Adjusted audit differences

The following table sets out the adjusted audit differences identified by our audit of Dorset County Council's 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			Cr Government debtors (£2,227,000)	Dr Deferred Income £2,227,000		This relates to an adjustment made for income recognized twice and corrected by The Authority. These entries are in order to correct the adjustment made by The Authority.
2	Dr IAS19 Service Cost £22,399,000 Dr IAS19 Net interest cost £487,000 Dr Contributions £,560,089 Cr Actuarial Gain (£4,726,000)			Cr Net pension liability (£18,721,000)		Pension adjustment in respect of the Tricuro pension treatment and the liability of employees transferred to Tricuro remaining within DCC.
3			Dr Government debtors £582,000	Cr Government creditors (£582,000)		Posting error meaning that receivables and payables were under-stated.
	Dr £18,721,000		**Cr (£1,645,000)**	**Cr (£17,076,000)**		**Total impact of adjusted audit differences**

Materiality and reporting of audit differences

For 2015/16 our materiality is £5.875 million for the Authority's accounts. For the Pension Fund it is £24 million.

We have reported all audit differences over £0.294 million for the Authority's accounts and £1.2 million for the Pension Fund, to the Audit & Governance Committee.

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 June, 2016.

Materiality for the Authority's accounts was set at £5.875 million which equates to around 1% percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Audit & 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 Audit & 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, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.294 million 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 Audit & Governance Committee to assist it in fulfilling its governance responsibilities.

Materiality – Pension fund audit

The same principles apply in setting materiality for the Pension Fund audit. Materiality for the Pension Fund was set at £24 million which is approximately 1.9 percent of gross assets.

We design our procedures to detect errors at a lower level of precision, set at £15 million for 2015/16.

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 some data analytics work on the Accounts Payable system, for the period 1st April 2015 to 31st March 2016.

We conducted 14 tests, and followed up on particular exceptions with management. Key observations are set out below. We have also made a recommendation that the Authority focuses on departments which are not obtaining appropriate internal approval prior to committing to purchases.

During this period, a total of 88,322 invoices have been recorded with a value of £237,179m. This is an increase from the same period in the prior year of £67,509 m, or 39%. These are invoices that go through the purchase ledger and have corresponding POs and GRNs and not invoices outside of this process.

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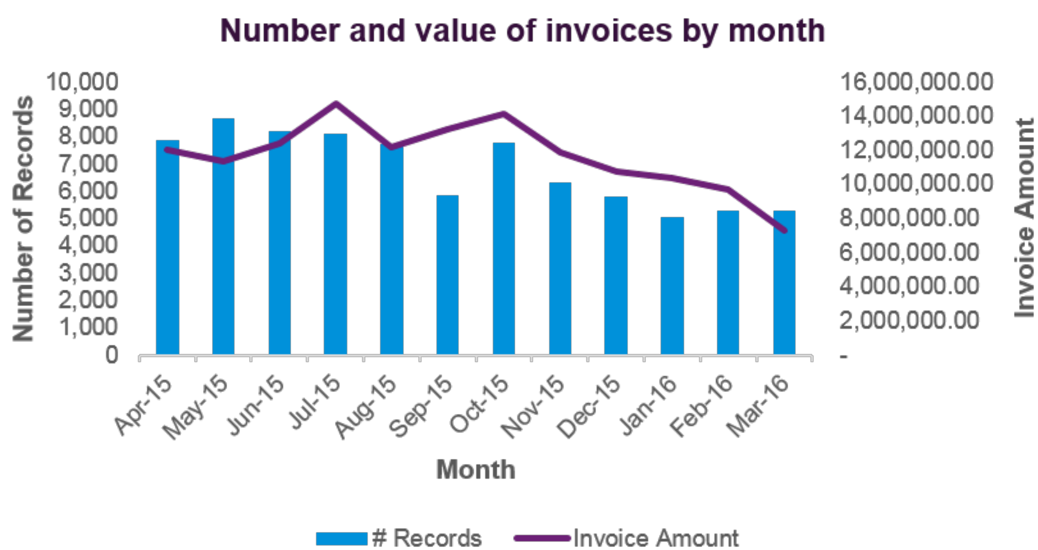
Accounts Payable – Data Analytics (cont.)

It was noted that there has been an decrease in the value of invoices going through the PO accounts payable process and in addition to this the number of invoices has decreased due to invoice consolidation.

1. Analysis by month



Analysis of results

There has been a general reduction in the number of accounts payable invoices across the year with September being a downwards fluctuation, this is due to seasonal variances and the levels of August holiday meaning that purchasing during that period is reduced. The general downwards trend can be attributed to a reduction in spending in the latter half of the year in order to reduce costs and make savings.

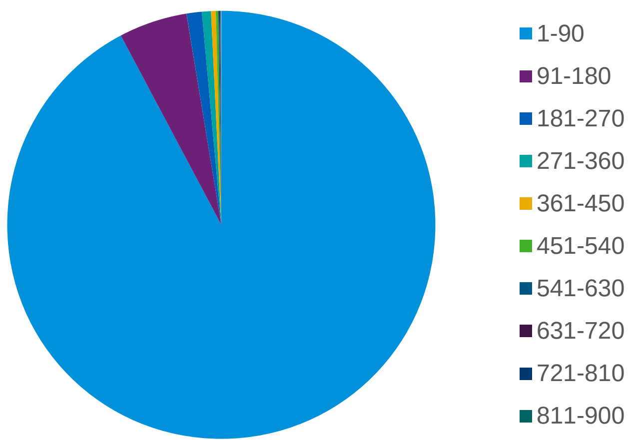
Accounts Payable - Data Analytics (cont.)

We performed testing over invoices where the PO pre-dated the invoice and the GRN pre-dated a PO.

This is linked to our recommendation around ensuring that there is a PO prior to ordering goods or arranging services to ensure that there is appropriate authorisation prior to purchase.

2. Analysis of purchase orders dated after the invoice date

Number of Invoices which predate the PO, by days



Analysis of results

We noted a total number of 12,614 invoices matched to purchase orders, dated before the date of the purchase order. This is approximately 14% of the invoices recorded in the period, and they have a total value of £23.796m.

The graph shows an analysis of the number of days after the invoice that each purchase order is dated. The longest period after the date of an invoice that a was approved is 900 days.

Those in the higher categories relate to instances where there have been issues in relation to the invoice itself that have taken time to resolve. These also relate to missing invoices where copies were subsequently received.

3. Analysis of purchase orders dated after the goods delivery date

Number of purchase orders dated after the goods delivery date	441

Analysis of results

We noted that there were 441 purchase orders dated after the goods delivery date.

Alongside the results of the previous test over purchase orders dated after the invoice, there is a risk that the Authority is committing itself to costs without obtaining the appropriate approval.

As set out in appendix one it is recommended that the Authority ensures a continued focus on departments with consistent issues in this area, so that such commitments are not made.

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 Audit & Governance 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 County Council and Dorset County Pension Fund for the financial year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and Dorset County Council and Dorset County Pension Fund, 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 £74,022 plus VAT in 2015/16, the fee for the audit of the pension fund is £25,146 plus VAT. This fee was in line with that highlighted within our audit plan agreed by the Audit & Governance Committee in June 2016. Our fee for the teacher's pension fund audit was £3,500 plus VAT (£3,500 in 2014/15).

KPMG carried out some work on devolution for Dorset County Council on behalf of the nine councils in the area and the police. The total fees were £55,000, of which £5,500 related to this council. The work was carried out by a team separate from the audit team, and there were no identified conflicts between the audit and the non-audit work.

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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