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Agenda
Supplement

Dorset County Council

Meeting:	Audit and Governance Committee
Time:	10.00 am
Date:	29 June 2018
Venue:	Committee Room 2, County Hall, Colliton Park, Dorchester, Dorset, DT1 1XJ

Debbie Ward
Chief Executive

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To consider a report by KPMG, the Council's External Auditor.

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External Audit ISA260 Report 2017/18

Dorset County Council

29 June 2018

Summary for Audit and Governance Committee

This document summarises the key findings in relation to our 2017-18 external audit at Dorset County Council ('the Authority') and Dorset County Pension Fund.

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

Financial statements

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

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

— **Valuation of PPE** – we reviewed the process in place for valuations and confirmed that these were appropriate. We reviewed for indicators of impairment or material movement in valuation between the date of the valuation (1 April 2017) and the year end. We found the valuation methodology to be appropriate, however have raised one recommendation, further details of which can be found in Appendix 1;

— **Pensions Liabilities** – we have reviewed the process used to submit payroll data to the Pension Fund and substantively agreed the total figures submitted to the actuary to the general ledger with no issues noted. We critically assessed the assumptions used in the pension valuation at 31 March 2018 using our pensions experts and found these to be appropriate.

We have not identified any audit adjustments

Based on our work, we have raised one recommendation. Details of our recommendations can be found in Appendix 1.

We are now in the completion stage of the audit and anticipate issuing our completion certificate and Annual Audit letter in September 2018.

Pension Fund financial statements

We also anticipate issuing an unqualified audit opinion in relation to the Pension Fund's financial statements by 31 July 2018.

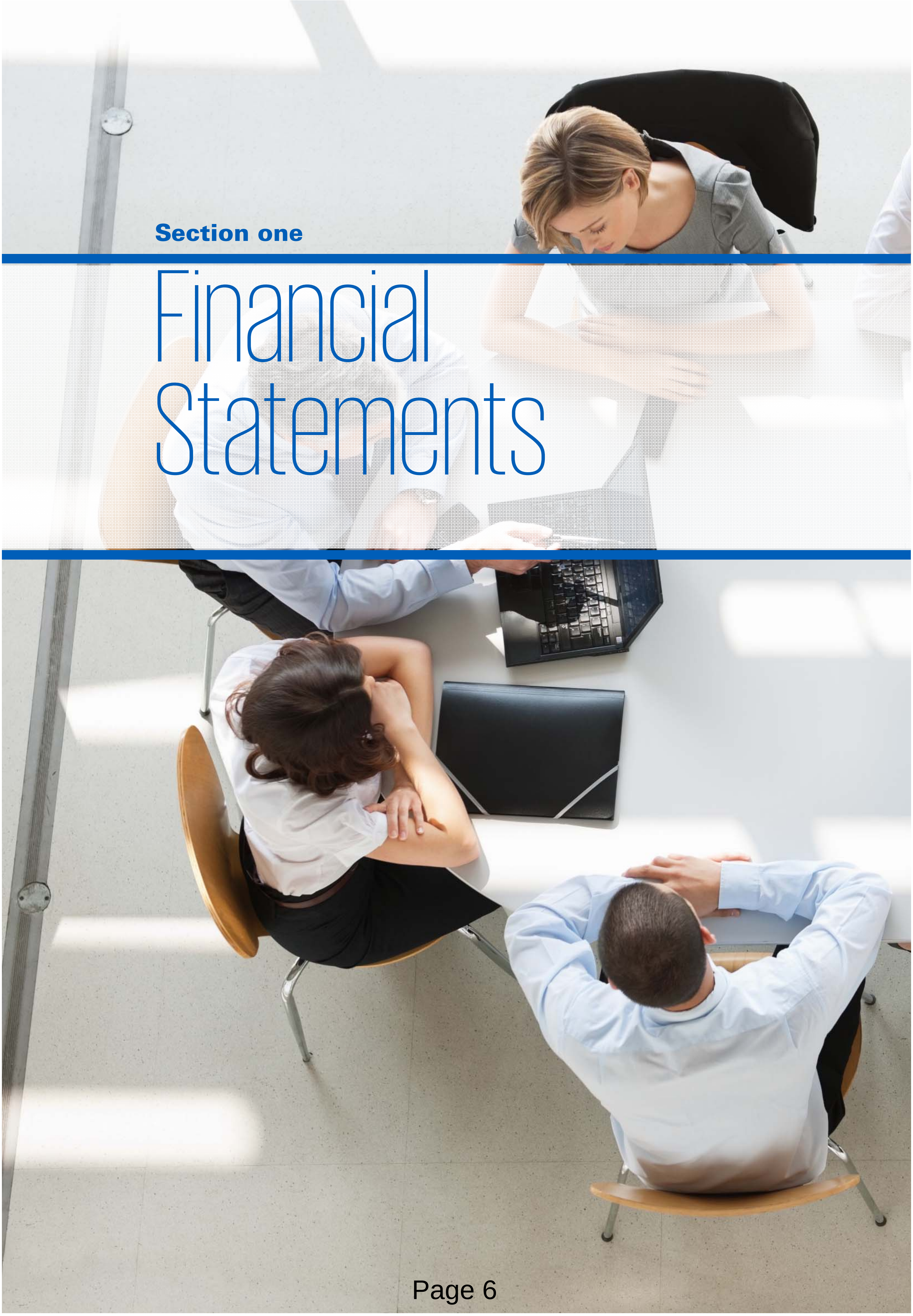
Based upon our initial assessment of risks to the Pension Fund financial statements (as reporting to you in our *External Audit Plan 2017/18* and updated during our interim visit) we have identified the following significant risks (excluding those mandated by International Standards on Auditing – see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

— **Valuation of hard to price investments** – we have reviewed the process of the year end revaluations and substantively agreed the year end investment figures to external valuations. We have reviewed the assumptions made by property valuers over the directly owned properties, and these appear reasonable.

Based on our work over the pension fund, we have raised one recommendation. Details of our recommendations can be found in Appendix 1.

Summary for Audit and Governance Committee (cont.)

Value for money arrangements	We have completed our risk-based work to consider whether in all significant respects the Authority has proper arrangements to ensure it has taken properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. **We therefore anticipate issuing an unqualified value for money opinion.** We set out our assessment of those areas requiring additional risk based work in our *External Audit Plan 2017/18* and have updated this assessment during our interim visit. As a result of this we have identified the following significant VFM audit risks: — **Delivery of Budgets** – we have reviewed the processes around the budget setting process and identification and monitoring of savings targets for the year. Overall, the council appear to have appropriate processes in place to make informed decisions and to deploy resources effectively; — **Children's Services**– we have discussed the issues leading to significant overspend in the past year and have reviewed the procedures in place to identify and develop strategies to address the budget gap. Overall, the council appear to have appropriate processes in place to make informed decisions and to deploy resources effectively; — See further details on page 16.
Exercising of audit powers	We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or if the public should know about. We have not identified any matters that would require us to issue a public interest report. In addition, we have not had to exercise any other audit powers under the Local Audit & Accountability Act 2014.
Acknowledgements	We would like to take this opportunity to thank officers and Members for their continuing help and support in delivering the audit.



Section one

Financial Statements

Accounts production and audit process

Audit standards (ISA 260) require us to communicate our views on the significant qualitative aspects of the Authority's accounting practices and financial reporting.

We also assessed the Authority's process for preparing the accounts and its support for an efficient audit. The efficient production of the financial statements and good-quality working papers are critical to meeting the tighter deadlines.

The Authority's overall process for the preparation of the financial statements and supporting working papers is, in our view, excellent. We received draft accounts on 1 May 2018 and have completed our audit well within the already reduced deadline.

Accounts practices and production process

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

We consider that the overall process for the preparation of your financial statements is performing well and we also consider the Authority's accounting practices appropriate.

Going concern

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

Although plans are in place for the council to undergo re-organisation, transfers of services under combinations of public sector bodies (such as local government reorganisation) do not negate the presumption of going concern.

Further commentary on the Authority's arrangements in place to secure the effective delivery of budgets is included at page 19.

Accounts production and audit process (cont.)

Completeness of draft accounts

We received a complete set of draft accounts on 30/04/2018, which was in advance of the statutory deadline.

Response to audit queries

We are pleased to report that our agreed turnaround time for dealing with audit queries was achieved by Officers, including those who are not part of the finance team. As a result of this, all of our audit work was completed within the timescales expected with no outstanding queries.

Group audit

To gain assurance over the Authority's group accounts, we performed review work over the financial statements of the Authority's joint ventures:

- Dorset Development Partnership,
- South West Audit Partnership
- TRICS Consortium Ltd and
- Tricuro

There are no specific matters to report pertaining to the group audit.

We are also pleased to report that there were no issues to note in relation to the consolidation process.

Pension Fund audit

The audit of the Pension Fund's financial statements was completed in June 2018 with draft financial statements being received before the statutory deadline.

The time taken to respond to audit queries relating to the Pension Fund was generally in line with our expectations. This helped ensure that we were able to perform our audit within the agreed timeframe

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

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

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

Specific audit areas

We anticipate issuing an unqualified audit opinion on the Authority's 2017-18 financial statements and those of the Pension Fund by 31 July 2018. We will also report that your Annual Governance Statement complies with the guidance issued by CIPFA/SOLACE ('Delivering Good Governance in Local Government') published in April 2016.

For the year ending 31 March 2018, the Authority has reported a deficit of £48.9m. The impact on the General Fund has been a decrease of £0.8m. The Authority has used £1.4m of capital receipts against its revenue expenditure. The underlying deficit before the use of capital receipts is £50.3m.

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

01

Management override of controls

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

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

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

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

02

Fraudulent revenue recognition

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

In our *External Audit Plan 2017-18* we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.

This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.

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

Specific audit areas

Significant Audit Risks – Authority

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

Risk:

Valuation of PPE

The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Authority has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. As a result of this, however, individual assets may not be revalued for four years.

This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value. In addition, as the valuation is undertaken as at 1 April 2017, there is a risk that the fair value at year end is not consistent with the fair value as at 31 March 2018.

Our assessment and work undertaken:

We reviewed the approach that the Authority adopted to assess the risk that assets not subject to valuation were materially misstated and considered the robustness of that approach.

In addition, we considered movements in market indices between revaluation dates and the year end in order to determine whether these indicate that fair values had moved materially over that time.

In relation to those assets which have been revalued during the year we reviewed the accounting entries made to record the results of the revaluation in order to ensure that they were appropriate.

As a result of this work we determined that revaluations appeared to be free from material misstatement.

We also assessed the valuer's qualifications, objectivity and independence to carry out such valuations and reviewed the methodology used (including testing the underlying data and assumptions).

However we have raised a recommendation (see Appendix 1) over the assessment of the appropriateness of valuing assets at 1 April, and to consider rolling valuations forward to the end of the year where possible.

We have set out our view of the assumptions used in relation to accounting for Property, Plant & Equipment at page 10.

Specific audit areas (cont.)

Significant Audit Risks – Authority (cont.)

Risk:

Pension Liabilities

The net pension liability represents a material element of the Authority's balance sheet. The Authority is an admitted body of the Dorset County Pension Fund, which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018.

The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Authority's overall valuation.

There are financial assumptions and demographic assumptions used in the calculation of the Authority's valuation, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Authority's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes.

There is a risk that the assumptions and methodology used in the valuation of the Authority's pension obligation are not reasonable. This could have a material impact to net pension liability accounted for in the financial statements

Our assessment and work undertaken:

As part of our work we reviewed the controls that the Authority has in place over the information sent to the Scheme Actuary, including the Authority's process and controls with respect to the assumptions used in the valuation. We also evaluated the competency, objectivity and independence of Barnett Waddingham.

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

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

In order to determine whether the net pension liability has been appropriately accounted for we also considered the valuation of pension assets. As part of our audit of the Pension Fund we gained assurance over the overall value of fund assets. We then liaised with the actuary to understand how these assets are allocated across participating bodies and re-performed this allocation.

As a result of this work we determined that pension liabilities appear to be free from material misstatement.

We have set out our view of the assumptions used in valuing pension assets and liabilities at page 11.

Specific audit areas (cont.)

Significant Audit Risks – Pension Fund

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

Risk:	**Valuation of harder to price investments** The Pension Fund invests in a wide range of assets and investment funds, some of which are inherently harder to value or do not have publicly available quoted prices, requiring professional judgement or assumptions to be made at year end. The pricing of complex investment assets may also be susceptible to pricing variances given the number of assumptions underlying the valuation. In the prior year financial statements, £417 million out of a total of £2,707 million of investments, or 15%, were in this harder to price category. For year ended 31 March 2018, £478 million out of a total of £2,814 million of investments, or 17%, were in this harder to price category
Our assessment and work undertaken:	As part of our audit of the Pension Fund, we have reviewed the year end valuation process and assessed the design and implementation of controls over the process. We have independently verified a selection of investment asset prices to third party external valuations and obtained independent confirmation on asset existence. We have reviewed the assumptions made by property valuers over the directly owned properties, and these appear reasonable. No issues were identified as a result of our testing.

Judgements

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

Level of prudence

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

Subjective area	2017-18	2016-17	Commentary
Provisions (excluding Business Rates)	3	3	The provisions are calculated on a consistent basis year on year and are deemed reasonable and balanced overall. Provisions relate to general insurance provisions, schools reorganisations and miscellaneous other provisions. PY £2.6m; CY £3.2m
Deferred income	3	3	We consider the related disclosures to be proportionate, and deferred income has been calculated on a consistent basis with the prior year which is deemed appropriate. PY £10.9m; CY £16.5m
Debtors provisioning	3	3	The Authority has calculated its debtors provision consistently year on year and it is deemed to be calculated on a reasonable basis PY £1.4m, CY £1.3m
Property Plant & Equipment:	2	3	We consider the valuation of property plant and equipment in the current year to be acceptable but cautious. This is primarily due to the valuation being performed at 01/04/2017 and therefore increases in the benchmarks used for assumptions such as build cost indices have not been factored into the valuation. PY £391.8m CY £384.3m

Judgements (cont.)

Subjective area	2017-18	2016-17	Commentary
Valuation of pension assets and liabilities	3	3	The Authority continues to use Barnett Waddingham to provide actuarial valuations in relation to the assets and liabilities recognised as a result of participation in the Local Government Pension Scheme. Due to the overall value of the pension assets and liabilities, small movements in the assumptions can have a significant impact on the overall valuation. The actual assumptions adopted by the actuary fell within our expected ranges as set our below:

Assumption	Actuary Value	KPMG Expectation	Assessment
Discount rate	2.55%	2.51%	3
Pension increase rate	2.30%	1.90-2.50%	2
Salary increases	CPI plus 1.5%	CPI plus 0% to 2%	3
Life expectancy Males current ages 45/65 Females currently aged 45/65	 26.2/24.0 28.4/ 26.1	 23.5/22.1 25.4/25.4	2

Proposed opinion and audit differences

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's 2017-18 financial statements following approval of the Statement of Accounts by the Audit and Governance Committee on 29 June 2018.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final materiality (see Appendix 3) for this year's audit was set at £10 million. Audit differences below £0.5 million are not considered significant.

We did not identify any material or significant misstatements.

Proposed opinion and audit differences (cont.)

Annual governance statement

We have reviewed the Authority's 2017-18 Annual Governance Statement and confirmed that:

— It complies with Delivering Good Governance in Local Government: A Framework published by CIPFA/SOLACE; and

— It is not misleading and is consistent with other information we are aware of from our audit of the financial statements.

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

Narrative report

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

Annual report

We have reviewed the Authority's 2017-8 Annual Report and can confirm it is not inconsistent with the financial information contained in the audited financial statements

Pension Fund financial statements

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Pension Fund's 2017-18 financial statements following approval of the Statement of Accounts by the Audit and Governance Committee on 29 June 2018.

Pension Fund audit

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

The final materiality (see Appendix 3) for this year's audit was set at £30 million. Audit differences below £1.5 million are not considered significant.

We did not identify any material or significant misstatements.

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 annual report is 1 December 2018. The Pension Fund Annual Report is currently due to be approved by the Pensions Committee in September. 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.

Completion

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

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of Dorset County Council and Dorset County Pension Fund for the year ending 31 March 2018, 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 5 in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Responsible Finance Officer for presentation to the Audit and Governance Committee. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

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

— Significant difficulties encountered during the audit;

— Significant matters arising from the audit that were discussed, or subject to correspondence with management;

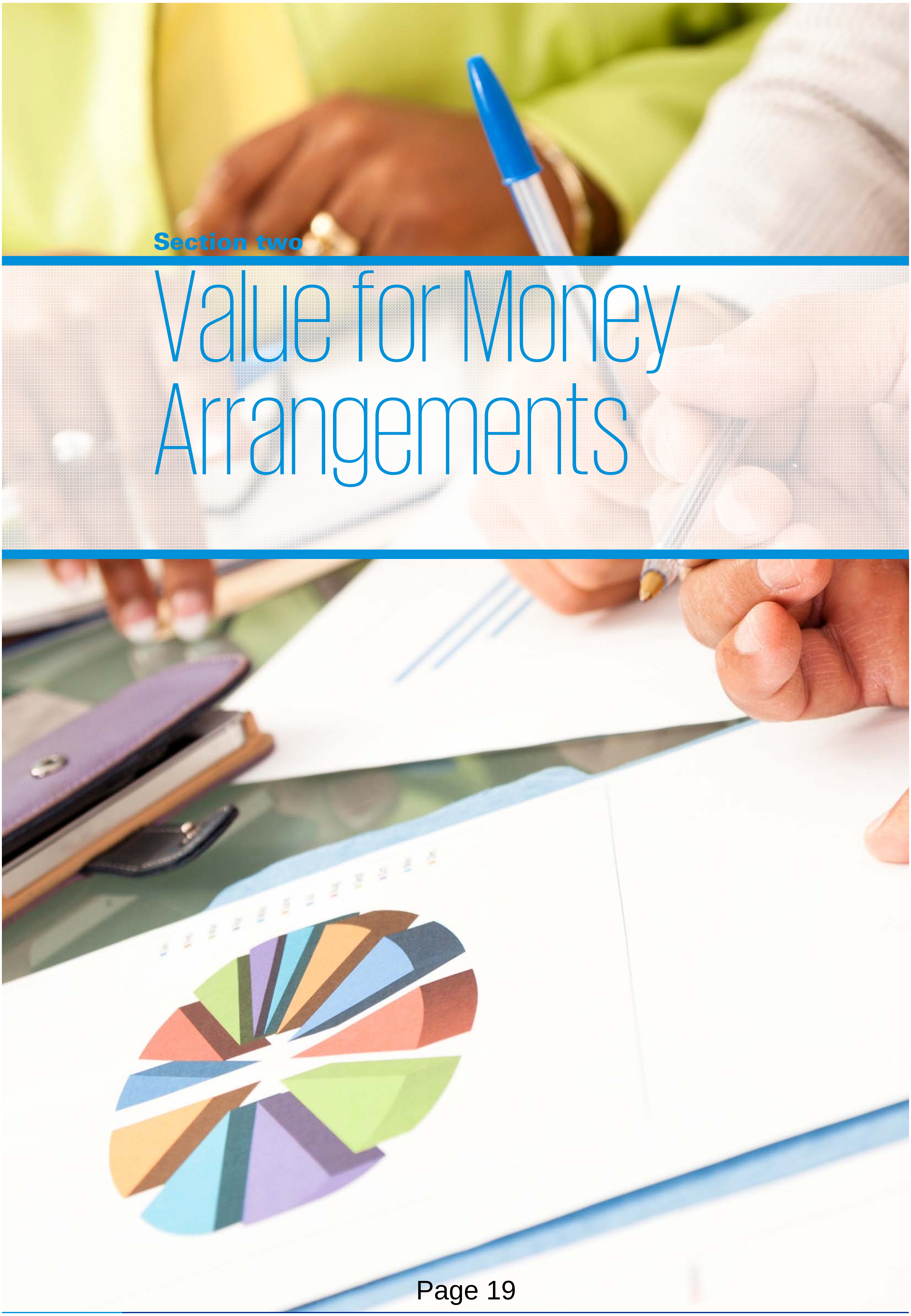
— Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and

— Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc.).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2017-18 financial statements.

Section two

Value for Money Arrangements



Specific value for money risk areas

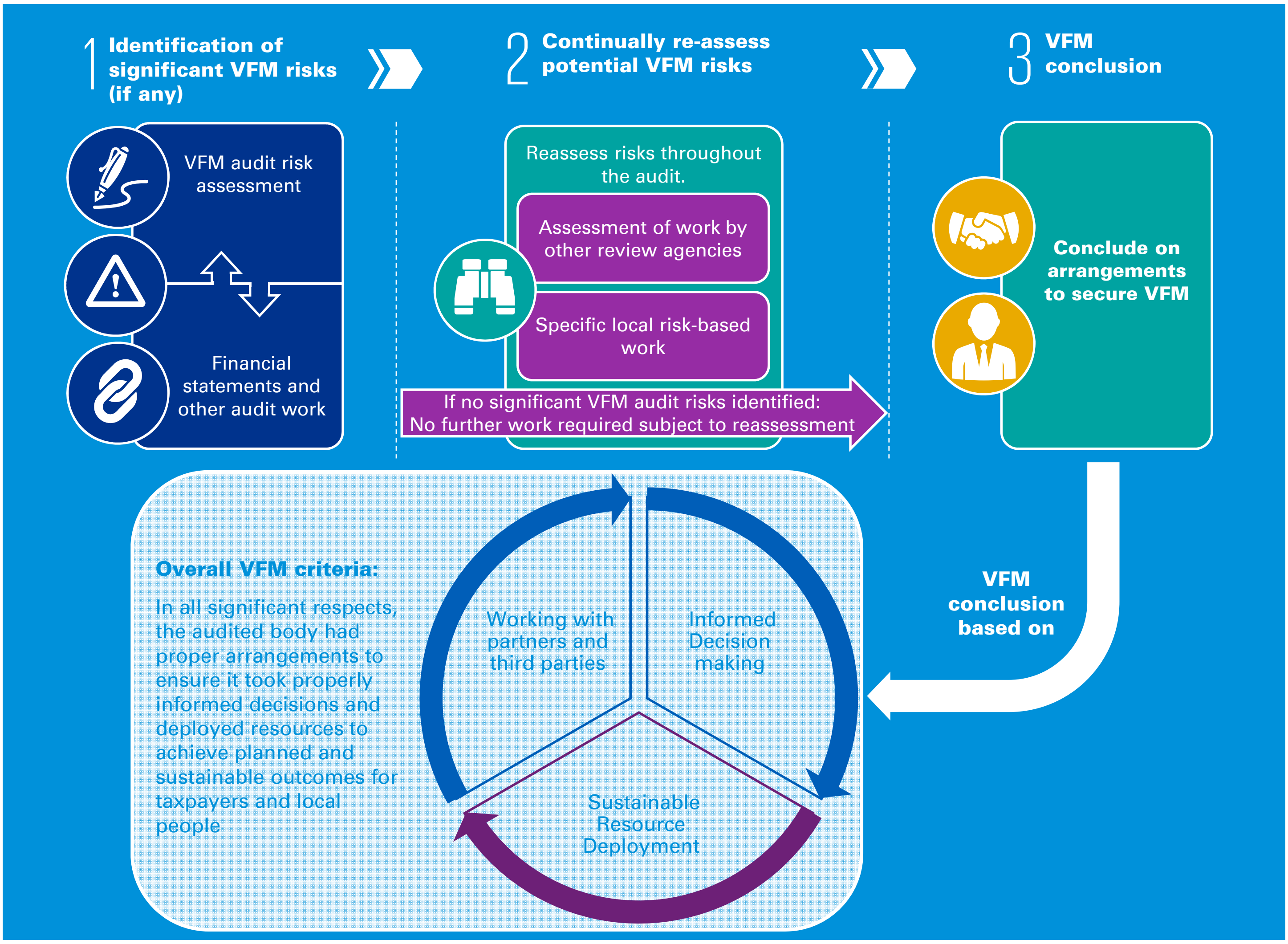
Our 2017-18 VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We have concluded that the Authority has made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

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

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



Specific value for money risk areas (cont.)

The table below summarises our assessment of the individual VFM risks identified against the three sub-criteria. This directly feeds into the overall VFM criteria and our value for money opinion.

Applicability of VFM Risks to VFM sub-criteria			
VFM Risk	**Informed decision making**	**Sustainable resource deployment**	**Working with partner and third parties**
Delivery of budgets			
Children's Services			

In consideration of the above, we have concluded that in 2017-18, the Authority has made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Further details on the work done and our assessment are provided on the following pages.

Specific value for money risk areas (cont.)

As communicated to you in our *External Audit Plan 2017-18*, and as updated throughout the audit, we have identified two risks requiring specific audit attention and procedures to address the likelihood that proper arrangements are not in place to deliver value for money.

In both 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.

We have provided below a summary of the risk areas identified, our work undertaken and the conclusions reached.

We have highlighted those risks which were identified after we presented our *External Audit Plan 2017/18* in January 2018.

Risk:

Delivery of budgets

The Authority identified the need to make savings of £18.3 million in 2017/18. The current forecast shows that the Authority will deliver an overspend of approximately £3.8 million.

The Authority's budget for 2018/19 recognised a need for £18.4 million in savings. The approved budget includes individual proposals to support the delivery of the overall savings requirement. The need for savings will continue to have a significant impact on the Authority's financial resilience.

Our assessment and work undertaken:

Like most of local government, the Authority faces a challenging future driven by funding reductions and an increase in demand for services.

The Authority reported a net deficit of £48.8 million in the year. This primarily due to expenditure related to capital and pension reserves. Therefore the General Fund balance remains at £15.9 million as of 31 March 2018 (2017; £16.8m).

The Authority's MTFP details a balanced budget for 2018/19 including targeted savings of £18.7 million in year from the forward together plan, all of which have been identified. However, the MTFP details the increasingly difficult financial challenges faced each year, resulting in the need for ever rising savings which have yet to be identified. We carried out testing a number of the Authority's saving schemes and have found that whilst overall there are good-quality schemes and robust reporting, the Authority has further opportunities to leverage synergies between individual schemes to achieve greater savings. This can be further achieved by the opportunities presented by the Local Government Reorganisation planned for 2019/2020.

Specific value for money risk areas (cont.)

Significant VFM Risks (cont.)

Newly Identified Area of Risk

Risk:

Children's Services

There were several factors continuing from the prior year assessment which were highlighted as a part of our Value for Money risk assessment work which identified Children's services as a potential risk area.

Overspend

Additional future savings of £4.1m were identified by the forward together plan for the current year. However forecasts exceeded the base budget throughout the year and there was a final overspend of £6.7m. This was driven by several areas within the division;

- Quantity and Mix of services required – although a reduction in the number of children in care has been seen in the past year, this has predominantly been a reduction in the low cost placements, therefore this has not had the intended impact on the costs of care sought by reducing the number of children in care.
- Agency staff costs – due to shortages in workers and staff absences, leading to the use of more expensive agency staff.

The Forward Together Plan has identified savings targets of £6.3m for 2018/19.

VFM Sub-criterion:

This risk is related to the following Value For Money sub-criterion

— Informed decision making; and

— Sustainable resource deployment

Our assessment and work undertaken:

Discussions were held with the Children's services team over the issues encountered by the department in terms of both quality and the identified issues around financial overspend and continued cost cutting measures.

Action plans were reviewed along side detailed plans and performance tracking tools which have been designed to monitor key performance indicators which have been identified as drivers of the increased cost and areas where quality must be maintained.

The process around the identification and monitoring of drivers of cost and quality indicates that the council has appropriate arrangements in place to take properly informed decisions over the actions required to deliver cost savings and maintain the required quality standards.

Appendices

Appendix 1:

Key issues and recommendations

Our audit work on the Authority's 2017-18 financial statements has identified a number of issues. We have listed these issues in this appendix together with our recommendations which we have agreed with Management. We have also included Management's responses to these recommendations.

The Authority should closely monitor progress in addressing the risks, including the implementation of our recommendations.

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

Priority Rating for Recommendations

1	**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.	2	**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.	3	**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.

The following is a summary of the issues and recommendations raised.

Priority	Prior year ISA260	Interim Report 2017/18	This Report	Total 17/18
High	-	-	-	-
Medium	1	-	1	1
Low	1	-	1	1
Total	**2**	**-**	**2**	**2**

Appendix 1:

Key issues and recommendations (cont.)

No.	Risk	Issue & Recommendation	Management Response
1	2	Movements in valuation of property, plant and equipment over the course of the year ***Risk*** The revaluation of property, plant and equipment takes place at the start of the financial year. There is a risk that there are material movements in assumptions over the year which could give rise to assets being under or over valued. ***Recommendation*** Over the course of each year the council should assess the appropriateness of revaluing fixed assets at the start of the accounting period and whether there is likely to be a material movement in value over the financial year. Where there are indications from relevant industry indices or market data available that valuations may have moved materially over the year, valuations should be rolled forward to the year end via a desktop review.	Discussions will be held between the finance team and the valuations team in order to assess the feasibility of reducing the timeframe between the valuation date and the year-end, in order to minimise the risk of a material movement in valuations between the valuation date and the year end. ***Responsible Officer*** Tony Diaz – Senior Finance Manager

No.	Risk	Issue & Recommendation	Management Response
3	3	Notification of Deferred Members & Joiners ***Risk*** When testing controls over the membership data in Altair, we noted that the pension fund is reliant upon receiving the notice of termination in a timely manner from the payroll department of the admitted body. Our sample testing identified that a notice of termination form was not always received and so the system was not updated until the pensions team carried out the year end check, to ensure that all deferred members have been removed from their system. In addition, we note that the processing of joiners onto Altair can be delayed by several months, meaning the membership numbers on the live system at a point in time could be inaccurate. ***Recommendation*** We recommend that membership numbers are reviewed on a more frequent basis and the processing of any changes to the standing data (such a joiners) is prioritised to ensure accuracy of the membership data.	In order to achieve this we would need to move to new processes where all employers submit monthly returns. Whilst our current software has the potential to do this, we have identified issues with the current software that mean it is not advisable to currently push this forward. We are working with the software provider to ensure this development better meets our future needs. There is a clear expectation and responsibility on the employer to provide both leaver and joiner information in a timely fashion. The year-end processes have built in checks to pick up any that have not been notified. The Pensions Administration Strategy allows us to issue charges to employers who persistently do not provide the information within the required timescales. The process in place to upload joiners into the Altair system works well, but is occasionally delayed in order to accommodate more urgent work, there is no risk or impact to the member in doing this. ***Responsible Officer*** Karen Gibson – Pensions Manager

Appendix 2:

Follow-up of prior year recommendations

The Authority has considered or implemented all of the recommendations raised through our previous audit work.

This appendix summarises the progress made to implement the recommendations identified in our ISA 260 Report 2016/17 and outstanding recommendations from previous audit years and re-iterates any recommendations still outstanding.

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

No	Risk	Issue & Recommendation	Management Response	Status as at June 2018
1	2	**Program changes** ***Risk*** We noted as part of our review of the SAP controls that currently program change owners are also able to request process changes and therefore that there is not an appropriate level of segregation of duties. There is a risk that program changes are not being appropriately monitored and managed to ensure that they are subject to the required level of testing and peer review prior to being implemented. ***Recommendation*** SAP program change owners (those who raise transport requests in the development environment) should be separate from program change users (those who migrate the change) for all program changes, and all program changes should be appropriately approved, tested, and signed off for implementation.	Ordinarily, we believe our segregation of duty is sufficient as our process dictates that only the BASIS team members are able to move transports for the rest of the team into the Production environment. In the examples attached, the ADM_VINCENTM user transported their own changes during a small window only, as we had just put the DES upgrade live and so we were in a post implementation phase, meaning we had to be more reactive with changes while we were stabilising the system. The ADM_PAIGEK transports relate to reporting changes only, so do not directly impact the system data or transactional functionality, they are simply additions or amendments to reporting formats that are available in the system, so feel this is very low risk. ***Responsible Officer*** Glen Conroy	No implementation planned – not followed up in current year audit.

Follow-up of prior year recommendations (cont.)

The Authority have considered or implemented all of the recommendations raised through our previous audit work.

No	Risk	Issue & Recommendation	Management Response	Status as at June 2018
2	3	**Pension Fund** **Notification of deferred members** ***Risk*** When testing controls over the membership data in Altair, the pension fund is reliant upon receiving the notice of termination in a timely manner from the payroll department of the admitted body. Our sample testing identified that a notice of termination form was not always received and so the system was not updated until the pensions team carried out the year end check, to ensure that all deferred members have been removed from their system. ***Recommendation*** We understand that the pension fund will be moving to a new process whereby employers submit electronic returns on a monthly basis. We recommend that the pension fund specifically request that admitted bodies flag any changes in membership as part of this process to ensure that new starters and leavers are identified on a timely basis.	Accepted. We will review membership numbers on a more frequent basis throughout the year. ***Responsible Officer*** Karen Gibson ***Implementation Deadline*** 31 March 2018	Although recognised by management, this recommendation has been raised again in the current year.

Appendix 3:

Materiality and reporting of audit differences

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.

Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.

Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our *External Audit Plan 2017-18*, presented to you in January 2018.

Materiality for the Authority's accounts was set at £10 million 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 the Audit and Governance Committee

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

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

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

In the context of the Authority, an individual difference is considered to be clearly trivial if it is less than £0.5 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 and 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 £30 million which is approximately 1.04% of gross assets.

We design our procedures to detect errors at a lower level of precision, set at £22.5 million for 2017-18.

Appendix 4:

Required communications with the Audit and Governance Committee

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

Required Communication	Commentary
Our draft management representation letter	We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 December 2018.
Adjusted audit differences	We have not identified any audit adjustments as part of our financial statements audit.
Unadjusted audit differences	We have not identified any audit adjustments as part of our financial statements audit.
Related parties	There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Audit and Governance Committee	There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
Control deficiencies	We have set out our assessment of the Authority's internal control environment, including details of significant deficiencies identified at page 22 of this report.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	We identified no actual or suspected fraud involving the Authority's Member or officers with significant roles in internal control, or where the fraud resulted in a material misstatement in the financial statements.
Significant difficulties	No significant difficulties were encountered during the audit.
Modifications to auditor's report	There are no modifications to our audit report.
Disagreements with management or scope limitations	The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.

Appendix 4:

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

Required Communication	Commentary
Other information	No material inconsistencies were identified related to other information in the Narrative Report or Annual Governance Statement. These reports were found to be fair, balanced and comprehensive, and compliant with applicable requirements.
Our declaration of independence and any breaches of independence	No matters to report. The engagement team and others in the firm have complied with relevant ethical requirements regarding independence. See Appendix 5 for further details.
Accounting practices	Over the course of our audit, we have evaluated the appropriateness of the Authority's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate. We have set out our view of the assumptions used in valuing pension assets and liabilities at page 11.
Significant matters discussed or subject to correspondence with management	There were no significant matters arising from the audit which were discussed, or subject to correspondence, with management.

Declaration of independence

ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF DORSET COUNTY COUNCIL

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

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

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

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

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

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews.

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

Appendix 5:

Declaration of independence (cont.)

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

Summary of fees

We have considered the fees charged by us to the authority and its controlled entities for professional services provided by us during the reporting period. We have detailed the fees charged by us to the authority and its controlled entities for significant professional services provided by us during the reporting period in Appendix 6, as well as the amounts of any future services which have been contracted or where a written proposal has been submitted. Total fees charged by us for the period ended 31 March 2018 can be analysed as follows:

	2017-18 £	2016-17 £
Audit of the Authority	74,022	74,022
Audit of the Pension Fund	25,146	25,146
Audit of controlled entities	29,800	29,000
Total audit services	**128,968**	**128,168**
Audit related assurance services	3,500	3,500
Total Non Audit Services	**3,500**	**3,500**

We are required by AGN 01 to limit the proportion of fees charged for non-audit services (excluding mandatory assurance services) to 70% of the total fee for all audit work carried out in respect of the Authority under the Code of Audit Practice for the year.

We do not consider that the total of non-audit fees creates a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out table on the following page.

Declaration of independence (cont.)

Analysis of Non-audit services for the year ended 31 March 2018

Description of scope of services	Principal threats to independence and Safeguards applied	Basis of fee	Value of services delivered in the year ended 31 March 2018 £	Value of services committed but not yet delivered £
Audit-related assurance services				
Grant Certification – Teachers Pensions Return	The nature of these audit-related services is to provide independent assurance on each of these returns. As such we do not consider them to create any independence threats.	Fixed Fee	-	3,500

Independence and objectivity considerations relating to other matters

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

Appendix 5:

Declaration of independence (cont.)

Long association or extensive involvement with an entity relevant to the engagement

KPMG has been associated with the audit of Dorset County Council for 10 years.

We do not believe that this impairs our independence due to the rotation of key audit staff members throughout this period.

Confirmation of audit independence

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

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

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

KPMG LLP

Appendix 6:

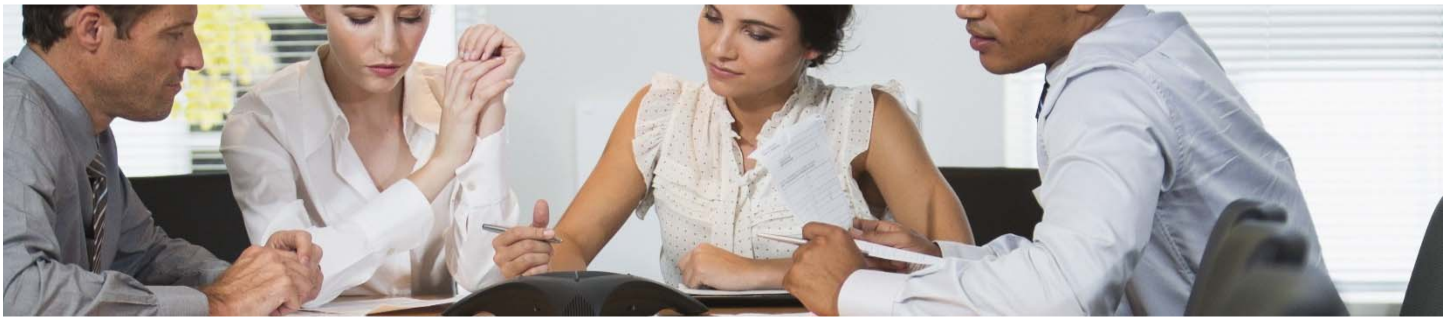
Audit fees

As communicated to you in our *External Audit Plan 2017-18*, our scale fee for the audit is £74,022 plus VAT (£74,022 in 2016/17), which is consistent with the prior year.

Component of the audit	2017-18 Planned Fee £	2016-17 Actual Fee £
Accounts opinion and value for money work		
PSAA Scale fee (Dorset County Council)	74,022	74,022
PSAA Scale fee (Dorset County Pension Fund)	25,146	25,146
Total audit services	**99,168**	**99,168**
Audit-related assurance services		
Teachers' Pension Return (work planned for August 2018)	3,500	3,500
Total audit-related assurance services	**3,500**	**3,500**
Total non-audit services	**3,500**	**3,500**
Grand total fees for the Authority	**102,668**	**102,668**

All fees quoted are exclusive of VAT.

As in previous years, we have been requested to carry out additional work on the Pension Fund by the auditors of admitted bodies to the fund. The Pension Fund is able to recharge these costs back to the admitted bodies. Our fee for this additional work is subject to approval by Public Sector Audit Appointments Ltd.



The key contacts in relation to our audit are:

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

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

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

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