



# Interim Audit 2017/18

**Dorset County Council**

—  
1 March 2018

# Summary for Audit and Governance Committee

<b>Organisational and IT control environment</b>	We undertook initial risk assessment procedures over the organisational and IT control environments with no adverse findings from our work. Further IT controls testing is planned for the week commencing 5 <sup>th</sup> March 2018.
<b>Controls over key financial systems</b>	We have performed our initial review of key financial processes and controls to the period ending 31 January 2018. We have not identified any significant weaknesses in processes or non-performance of key financial controls over this period.
<b>Accounts production and specific risk areas for the Authority</b>	We undertook an initial assessment of risks to the financial statements at planning stage and identified two significant risks other than the assumed risk of management override of controls. The identified risks were in relation to the valuation of property, plant and equipment, and the valuation of pension liabilities.
<b>Specific risk areas for the Pension Fund</b>	We identified one significant risk in relation to the Pension Fund relating to the valuation of hard to price investments. We have not yet performed our planning and controls work for the Pension Fund and therefore we will report our findings at a future Audit and Governance Committee meeting.
<b>Value for Money risk areas</b>	Our risk assessment procedures have identified Delivery of Budgets and Children's Services as significant risk factors for our Value for Money Opinion. Our testing over the processes in place to ensure informed decision making, sustainable resource deployment and working with partners and third parties will be concluded as a part of our final audit report.
<b>Acknowledgements</b>	We would like to take this opportunity to thank officers and Members for their continuing help.

# Introduction

## Scope of this report

This report summarises the key findings arising from:

- our interim audit work at Dorset County Council ('the Authority') in relation to the Authority's 2017/18 financial statements; and
- our work to support our 2017/18 value for money (VFM) conclusion up to March 2018.

This report does not cover the Pension Fund's financial statements as work is scheduled to start at a later date.

## Financial Statements Audit

Our *External Audit Plan 2017/18*, presented to you in January 2018, set out the four stages of our financial statements audit process.



During February 2018 we completed our planning and control evaluation work. This covered:

- review of the Authority's general control environment, including gaining an understanding of the Authority's IT systems;
- testing of certain controls over the Authority's key financial systems;
- review of relevant internal audit work in order to inform our risk assessment; and
- review of the Authority's accounts production process and the specific risk areas we have identified for this year.

## Value for Money Arrangements Work

Our *External Audit Plan 2017/18* explained our risk-based approach to VFM work, which is set out in the Code of Audit Practice and supporting guidance published by the NAO. We have completed some early work to support our 2017/18 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, inspectorates and other review agencies in relation to these risk areas; and
- identifying what additional risk-based work we will need to complete.

We have completed some initial work in response to the risks identified during our interim visit.

# Organisational and IT control environment

Your organisational controls have been deemed effective overall.

We will perform our testing over the IT control environment in the week commencing 5<sup>th</sup> March 2018 and will report our findings as a part of our ISA260 audit report.

## Work completed

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit. We obtain an understanding of the Authority's overall control environment and determine if appropriate controls have been implemented. We do not complete detailed testing of these controls.

The Authority relies on information technology ("IT") to support both financial reporting and internal control processes. In order to satisfy ourselves that we can rely on the use of IT, we test controls over access to systems and data, system changes, system development and computer operations.

Our testing of the IT system will include the controls around programme change methodology, powerful user access and password access.

## Key findings

We consider that your organisational controls are effective overall.

We will complete our testing over the IT controls in the week commencing 5<sup>th</sup> March 2018.

Aspect of controls	Assessment
Organisational controls:	
Management's philosophy and operating style	Three
Culture of honesty and ethical behaviour	Three
Oversight by those charged with governance	Three
Risk assessment process	Three
Communications	Three
Monitoring of controls	Three
IT controls:	
Programme Change Methodology	TBC
Powerful User Access	TBC
Password Access	TBC

Key	
One	Significant gaps in the control environment.
Two	Deficiencies in respect of individual controls
Three	Generally sound control environment.

# Controls over key financial systems

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

We will perform top up procedures over the controls tested to date as well as any key annual controls as a part of our final audit fieldwork.

## Work completed

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

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

## Key findings

Based on our work we have determined that the controls over all of the key financial systems are sound.

We have not yet assessed the controls over the submission of data to the pension scheme, and the review of the annual revaluation of land and buildings performed by the valuations team. Many of the key controls in respect of this area/these areas are operated during the closedown process and our testing will be supplemented by further work during our final accounts visit.

Aspect of controls	Assessment
Property, Plant and Equipment	To be confirmed
Cash and Cash Equivalents	Three
Pension Assets and Liabilities	To be confirmed
Non pay expenditure	Three
Payroll	Three

## Key

One	Significant gaps in the control environment
Two	Deficiencies in respect of individual controls
Three	Generally sound control environment

# Specific audit areas

The Authority has a good understanding of the key audit risk areas we identified and is making progress in addressing them.

However, these still present significant challenges that require careful management and focus. We will revisit these areas during our final accounts audit.

## Work completed

In our *External Audit Plan 2017/18*, presented to you in January 2018, we identified the key audit risks affecting the Authority's 2017/18 financial statements.

Our audit strategy and plan remain flexible as risks and issues change throughout the year. To date there have been no changes to the risks previously communicated to you.

We have been discussing these risks with Richard Ironside as part of our regular meetings. In addition, we sought to review relevant workings and evidence and agree the accounting treatment as part of our interim work.

## Key findings

The Authority has a clear understanding of the risks and is making progress in addressing them. However, these still present significant challenges that require careful management and focus. We will revisit these areas during our final accounts audit.

The Authority has a clear understanding of the risk of misstatement and utilise experts accordingly to produce well informed and accurate estimates as far as possible.

The tables below provides a summary of the work the Authority has completed to date to address these risks.

We have highlighted those risks and other areas of audit focus which have been identified since we presented our *External Audit Plan 2017/18* in January 2018.

## 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.

<b>Risk:</b>	<b>Valuation of PPE</b> <p>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.</p> <p>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, there is a risk that the fair value is different at the year end.</p>
<b>Interim assessment and work undertaken:</b>	<p>The rolling revaluation has been performed by the council and is currently being reviewed by the audit team.</p>

# Specific audit areas (cont.)

## Significant Audit Risks – Authority (cont.)

<b>Risk:</b>	<b>Pension Liabilities</b> <p>The net pension liability represents a material element of the Authority's balance sheet. The Authority is an admitted body of 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.</p> <p>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.</p> <p>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.</p> <p>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.</p>
<b>Interim assessment and work undertaken:</b>	Due to the nature of the pensions liabilities, testing over this risk area will take place after the year end.

# Specific value for money risk areas

**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.**

**We will carry out additional risk-based work in the following areas:**

- **Delivery of Budgets; and**
- **Children's Support Services**

**We have undertaken some work to date in response these risks.**

## **Work completed**

In line with the risk-based approach set out in our *External Audit Plan 2017/18*, we have

- Assessed the Authority's key business risks which are relevant to our VFM conclusion;
- Identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit;
- Considered the results of relevant work by the Authority, other inspectorates and review agencies in relation to these risk areas; and
- Concluded to what extent we need to carry out additional risk-based work.

## **Key findings**

On the following pages we set out our interim assessment in respect of those areas where we have identified a residual audit risk for our VFM conclusion.

We will update our assessment throughout the year should any additional issues present themselves and report against these in our ISA260 alongside our final conclusions on those risk areas identified below and any additional risk areas identified.





# Specific value for money risk areas (cont.)

## Significant VFM Risks already reported

Those risks requiring specific audit attention and procedures to address the likelihood that proper arrangements are not in place to deliver value for money.

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

<b>Risk:</b>	<b>Delivery of budgets</b> <p>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 £3.2 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.</p>
<b>Interim assessment and work undertaken:</b>	<p>We have discussed the budget setting processes with management as well as budget/ forward together plan (FTP) monitoring processes in place.</p> <p>We will follow up on the final budget setting and cost saving identification processes for 2018/19 as a part of our final audit procedures.</p>

## Significant VFM Risks (additional risks not yet reported)

<b>Risk:</b>	<b>Children's Services</b> <p>The Children's Services directorate is currently forecasting an overspend of £11m (£6.7m Children's Services and £4.3m dedicated support grant)) and has been an area of budgetary pressure for several years.</p> <p>In the light of budget cuts and cost saving initiatives identified across the council, the performance of this directorate against the budget set given the identified council wide savings requirements was considered to be a significant VFM risk.</p>
<b>Approach:</b>	<p>We will address the identified risk by reviewing the procedures in place over;</p> <ul style="list-style-type: none"><li>- Identification of drivers of cost and quality</li><li>- Regular monitoring of performance of key performance indicators</li><li>- Budget setting and monitoring processes</li></ul>
<b>VFM Sub-criterion:</b>	<p>This risk is related to the following Value For Money sub-criterion</p> <ul style="list-style-type: none"><li>— Informed decision making; and</li><li>— Sustainable resource deployment</li></ul>
<b>Interim assessment and work undertaken:</b>	<p>Our interim procedures have included discussions with Children's Services staff over the identification of areas requiring improvement, budget overspend drivers, and developing an action plan to create a sustainable service in the future.</p> <p>We have assessed the performance review processes in place as well as plans developed to monitor key performance indicators and cost drivers for the directorate. These will be followed up again as a part of our final audit procedures.</p>



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