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Dorset Council

Agenda Supplement

Audit & Governance Committee

Date:	Monday, 16 November 2020
Time:	10.00 am
Venue:	Virtual (MS Teams Live)

Chief Executive: Matt Prosser, South Walks House, South Walks Road, Dorchester, Dorset DT1 1UZ (Sat Nav DT1 1EE)

For more information about this agenda please telephone Fiona King 01305 224186 - fiona.king@dorsetcouncil.gov.uk

To consider the Deloitte external auditor annual audit letters in relation to the 2019-20 accounts for the legacy sovereign authorities of Dorset Council.

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Deloitte.

Dorset Council

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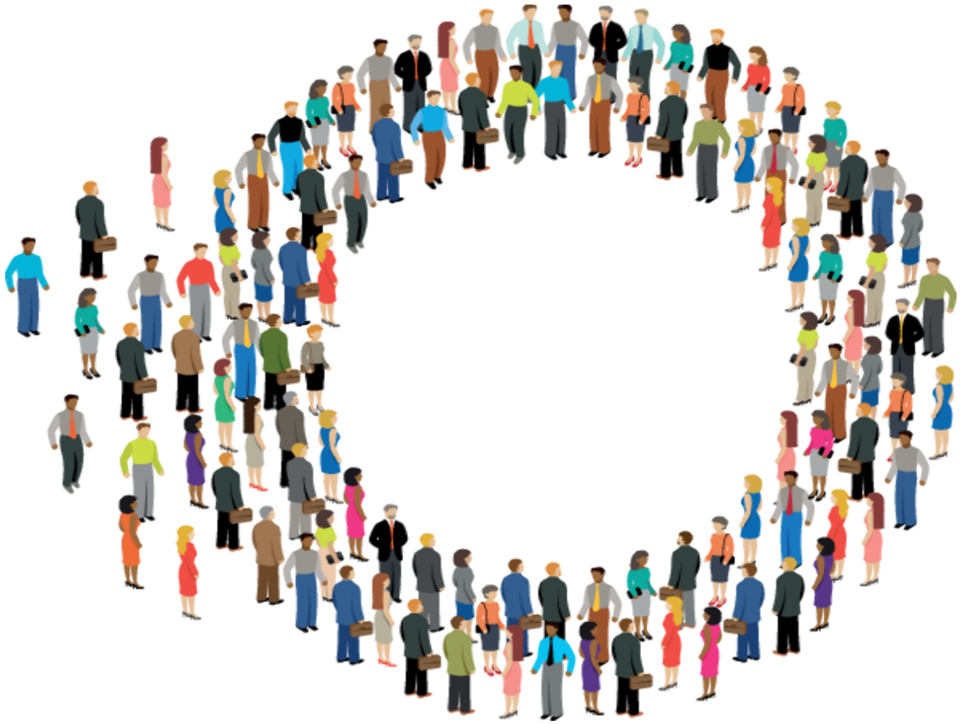

Dorset Council

Report to the Audit and Governance Committee on the audit for the year-ended 31 March 2020

Issued on 11 November 2020 for the meeting on 16 November 2020

Contents

Introduction

The key messages in this report

I have pleasure in presenting our status report to the Audit and Governance Committee on Dorset Council (the Council) for the 2020 audit. The scope of our audit was set out within our planning report presented to the Committee in January 2020.

Status of the audit	Our audit is in progress with the following principal matters still to be completed: • completion of audit fieldwork (including confirmation from pension specialists of pension liability assumptions including determining the impact of the McCloud and Goodwin cases and finalisation of asset revaluation work, specifically floor area testing, payroll, cash, investment, journals and additional income and expenditure sample testing); • receipt of IAS 19 letter from Dorset Pension Fund auditors; • receipt of final bank and investment confirmations; • Review of updated financial statements since our review against CIPFA Checklist considerations; • completion of partner reviews and internal quality assurance procedures relating to audit testing completed; • receipt of signed management representation letter; and • our review of events since 31 March 2020 through to signing. We will provide an oral update on the progress of these matters at the meeting of the Audit and Governance Committee.
Conclusions from our testing	At the time of issuing this report we have identified four unadjusted audit misstatements which are not material but are above our reporting threshold of £0.7m. These are in relation to the Goodwin case (subject to the final completion of the work noted above), surplus asset's, accruals and opening balances. Please see page 31 for further detail. There were some misstatements in the accounts that have now been corrected by management. These were not material so we do not believe that these need to be brought to your attention, however further items may be identified on completion of the outstanding items above. Based on the current status of our audit work, we envisage issuing an unmodified financial audit opinion on the Council's accounts with emphasis of matter paragraphs in relation to the valuation of the Councils land and buildings and underlying pension assets. In relation to the reference to any matters in respect of the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources we intend to issue an except for opinion in respect of Children's Services. Please see pages 16-18 for further detail.
Narrative Report & Annual Governance Statement	• We have reviewed the Council's Annual Report & Annual Governance Statement to consider whether it is misleading or inconsistent with other information known to us from our audit work. • The Annual Governance Statement complies with the Delivering Good Governance guidance issued by CIPFA/SOLACE. • We are finalising our review in relation to the latest version of the Narrative Report.

Introduction
The key messages in this report (Continued)

Duties as public auditor	• We received one query from a local elector this year which was a clarification query, this was largely resolved by Council staff. • We have not identified any matters that would require us to issue a public interest report. We have not had to exercise any other audit powers under the Local Audit and Accountability Act 2014.
Whole of Government Accounts (WGA)	• We have not received instruction from the National Audit Office (NAO) regarding which Local Authorities are a sampled component for WGA reporting, however, we have been notified that the deadline for an audited submission is 4 December 2020. • If Dorset Council is a sampled component we will be required to perform testing on the Council's WGA submission, checking its consistency to the audited financial statements and reporting our findings to the National Audit Office, together with our audit opinion and key issues from our audit.
Impact of Covid-19	The impact of Covid-19 meant that we needed to factor additional considerations into our risk assessment and certain areas of our audit required further work, such as property valuations, pensions, and the going concern assessment. We note that it has also resulted in a material uncertainty being attached to the property valuations produced by the Council's Valuers as well as in relation to the fair value of pension scheme assets. As a result we have referred to this in our opinion as an emphasis of matter in the key audit matters section in relation to property and pension valuations. There are no other significant impacts of Covid-19 on the Council's Accounts and Annual Report identified at this time. Further impact of Covid-19 can be seen on pages 21-22.

Ian Howse
Lead audit partner

Responsibilities of the Audit & Governance Committee

Helping you fulfil your responsibilities

Why do we interact with the Audit & Governance Committee?

To communicate audit scope

To provide timely and relevant observations

To provide additional information to help you fulfil your broader responsibilities

As a result of regulatory change in recent years, the role of the Audit & Governance Committee has significantly expanded. We set out here a summary of the core areas of Audit & Governance Committee responsibility to provide a reference in respect of these broader responsibilities and highlight throughout the document where there is key information which helps the Audit & Governance Committee in fulfilling its remit.

Oversight of external audit

- At the start of each annual audit cycle, ensure that the scope of the external audit is appropriate.
- Make recommendations as to the auditor appointment and implement a policy on the engagement of the external auditor to supply non-audit services.

Integrity of reporting

- Impact assessment of key judgements and level of management challenge.
- Review of external audit findings, key judgements, level of misstatements.
- Assess the quality of the internal team, their incentives and the need for supplementary skillsets.
- Assess the completeness of disclosures, including consistency with disclosures on Local Authority model and strategy.

Internal controls and risks

- Review the internal control and risk management systems (unless expressly addressed by separate risk committee).
- Explain what actions have been, or are being taken to remedy any significant failings or weaknesses.

Oversight of internal audit

- Monitor and review the internal audit activities.

Whistle-blowing and fraud

- Ensure that appropriate arrangements are in place for the proportionate and independent investigation of any concerns that are raised by staff in connection with improprieties.

Our audit explained

We tailor our audit to the Council and your strategy

Identify changes in your business and environment

In our planning report we noted that we had spent time with management understanding the current year matters and prepared our risk assessment for the audit. We have kept this under review throughout our audit.

Scoping

Our planning report set out the scoping of our audit. We have completed our audit in line with our audit plan.

Other findings

As well as our conclusions on the significant risks we are required to report to you our observations on the internal control environment as well as any other findings from the audit. We would like to draw to your attention to a number of findings, further details of which are found on pages 23-26.

Determine materiality

When planning our audit we set our materiality at £14.2m based on 1.7% of total expenditure per the Council's 2019/20 budget.

This figure has been updated based on the 2019/20 draft accounts resulting in a materiality level of £14.0m. We report to you in this paper all misstatements above £0.7m.

Significant risk assessment

In our planning report we explained our risk assessment process and detailed the significant risks we have identified on this engagement. We report our findings and conclusions on these risks in this report.

Conclude on significant risk areas

We draw to the Audit and Governance Committee's attention our conclusions on the significant audit risks.

Our audit report

Based on the current status of our audit work, we envisage issuing an unmodified audit report with respect to the financial statements. For our Value for Money opinion, we envisage issuing an except for opinion. See pages 16-18 for further detail.

Significant risks

This dashboard highlights the County Council significant risks.

Risk	Material	Fraud risk	Planned approach to controls testing	Controls testing conclusion	Consistency of judgements with Deloitte's expectations	Page no.
Predecessor body consolidation and disaggregation	✓	✓	D+I	Satisfactory	TBC	8
Property valuations	✓	✗	D+I	Satisfactory	TBC	10
Completeness of accrued expenditure	✓	✓	D+I	Requires improvement	TBC	12
Valuation of the Council's share of the Pension Fund liability	✓	✗	D+I	Satisfactory	TBC	13
Management Override of Controls	✓	✓	D+I	Requires improvement	TBC	15
Value for Money – sustainable resource deployment and working with partners and other third parties.	N/A	N/A	N/A	N/A		16

Overly prudent, likely to lead to future credit — Overly optimistic, likely to lead to future debit.

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

Significant risks (continued)

Predecessor body consolidation and disaggregation

Risk identified
On the 31 March 2019 the former Dorset County, East Dorset, North Dorset, Purbeck, Weymouth & Portland and West Dorset Councils ceased to exist and on 1 April 2019 Dorset Council was established.

<u>Consolidation</u>
The creation of Dorset Council on 1 April 2019 was a transfer of the former authorities by absorption, with audited data to 31 March 2019 being uploaded to the former Dorset County Council financial system (which is being used as the lead legacy system) to create opening balances for the 1 April 2019. There will be no prior year comparatives.

We identified a risk that data transferred and uploaded was not complete or accurate due to the manual nature of the process in which this exercise was being completed.

In addition, as a result of the modified opinions in relation to property valuations, the provision and revaluation reserve calculations at the former North Dorset, Weymouth & Portland and West Dorset Councils, there is a risk that the data transferred is not materially correct.

<u>Disaggregation</u>
In addition, as a result of the formation of the new Council, the provision of services by the former Dorset County Council to the Christchurch area were required to be disaggregated and transferred to Bournemouth, Christchurch and Poole (BCP), as they are now wholly responsible for council services in their area.

Therefore, a detailed disaggregation exercise has been undertaken to determine how each service will be split based on a number of considerations including location, Census and Office of National Statistics data.

We identified a risk that the disaggregation process and resultant rationales for each service area split had not been formally agreed, in addition, there was a risk that the disaggregation assumptions determined may not have been the most appropriate. Further there was a risk that the appropriate disaggregation process had not been followed, that the disaggregation calculations were not accurate and that the resultant assets and liabilities are misstated.

Significant risks (continued)

Predecessor body consolidation and disaggregation

Deloitte response

Consolidation
We have tested the design and implementation of key controls in place around the data upload of the former authorities.

(1) We have tested the completeness and accuracy of data uploaded including the former North Dorset, Purbeck, Weymouth & Portland and West Dorset Councils provision calculations which formed the basis of the consolidation schedule for the new Dorset Council by comparing directly to the audited 31 March 2019 data and identified that the certified financial statements for West Dorset as at 31 March 2019 had a differing amount to that which was uploaded for the 1 April 2019 Balance Sheet comparisons for both Long Term and Short Term Debtors and Investments. This differences were equal and opposite and represented a classification change. This is a timing matter where these were late adjustments and as the differences were not materially different to the data being uploaded by Dorset Council it was determined not to post the adjustment. In detail:

- Long Term Investments are understated by £4.3m;
- Short Term Investments are overstated by £4.3m;
- Long Term Debtors are overstated by £1.3m; and
- Short term debtors are understated by £1.3m.

We should note that this work is subject to final partner review.

Disaggregation
We have tested the design and implementation of the approval of the disaggregation process and assumptions applied to each service area.

We are currently finalising our testing in relation to a sample of services to determine whether the agreed disaggregation percentage applied was reasonable, signed-off, and supported. We identified that two of our samples do not have available evidence to support the judgement applied. We note that both of these judgements were ultimately approved and signed off by the Oversights Group which ensures that both Dorset and BCP have agreed the balance to be disaggregated. However we were unable to evidence and re-perform the calculations to ensure their accuracy. These are in relation to:

- £19.7m disaggregated in relation to infrastructure, whereby a 5.6% disaggregation percentage was applied; and
- £0.04m has been disaggregated for the Commissioning Health Team where the people responsible for the judgements and working papers have since left the Authority.

We should note that this work is subject to final partner review.

Deloitte conclusion

Testing is ongoing, we will provide a verbal update in relation to the progress of this work at the Audit and Governance Committee meeting on 16 November.

Significant risks (continued)

Property Valuation

Risk identified

The Council holds a significant amount of property assets. 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 Council is expected to adopt a rolling revaluation model which sees all land and buildings revalued over a five year cycle. As this is the first year of operation for the Council it was expected that all assets would be revalued and for the year-ending 31 March 2020 the Council used three different valuers, the internal valuers who valued the former East Dorset and Purbeck District Councils' assets, along with two other firms to value the remaining former district councils and the former Dorset County Council.

The predecessor Councils had their own policies on useful asset lives and depreciation which may have led to differences in instructions to their valuers who in turn may have used differing assumptions to complete their valuations.

Furthermore the Council this year completed its valuations as at 31 January 2020, two months before the year-end. Any changes to factors (e.g. build costs, lives, Brexit) used in the valuation process between January 2020 and March 2020, could have had a material effect on the value of the Council's assets at the year-end.

We therefore identified a risk that that the value of property assets may be materially different from the year-end disclosed fair value, particularly given that valuations are inherently judgemental and include a number of assumptions.

Deloitte response

We tested the design and implementation of key controls in place around the property valuation and how the Council has assured itself that there are no material impairments or changes in value between the date of valuation and the year-end.

Testing in relation to revaluations is being finalised in relation to floor area testing and accounting entry reconciliations.

Other specific work performed and completed is a review of the revaluations performed in the year, assessing whether they have been performed in a reasonable manner, on a timely basis and by suitably qualified individuals.

We used our valuation specialists, Deloitte Real Estate, to support our review and challenge the appropriateness of the Council's assumptions and the consistency of these assumptions prepared by different valuers on its asset values and whether there could have been a material change in value between January 2020 and 31 March 2020.

We considered the adjustments made to harmonise accounting policies for all assets; and we tested a sample of revalued assets to determine whether the movement has been recorded correctly in the accounts.

Significant risks (continued)

Property Valuation (continued)

Deloitte response (continued)

We note that the 31 March 2020 valuation process has been impacted by the Covid-19 outbreak towards the end of March. All three valuers, following RICS guidance, have therefore declared a material uncertainty in their valuation reports. The valuers have based the 31 March 2020 results on the best information available and the results provided have given a valid measurement basis for the assets values disclosed in the accounts. However, due to the unprecedented circumstances at 31 March 2020, there are elements of this that are uncertain and that cannot be quantified. As noted in our Deloitte view below, will be reported within our audit opinion.

We note that this is a common feature across 31 March 2020 valuations, both in the Local Government sector and more widely.

Deloitte view

Overall our valuation specialists were satisfied that the valuations completed were completed to a reasonable standard with no fundamental issues. Our audit work in relation to the revaluation movements and the related financial statement disclosures is ongoing, to date we have identified a disclosure deficiency in relation to the CIPFA code requirement to include an analysis of revalued amounts over each year of the revaluation cycle with a template disclosure provided within the CIPFA code. Given this is the first year of operation of Dorset Council, the reader can deduce that this is the first revaluation cycle but going forward this disclosure will ensure the revaluation cycle is complete, see disclosure deficiency on page 32. We will provide a verbal update in relation to the progress of this work at the Audit and Governance Committee meeting on 16 November.

A number of recommendations have been identified by our valuation specialists which have been shared with management and the internal estates team to improve the valuation process going forward, further detail is included on pages 25-28 where insights are raised.

We have considered the adequacy of the disclosure of material valuation uncertainty in the “key sources of estimation uncertainty” noted in the financial statements. Our audit opinion will reference this uncertainty in an Emphasis of Matter.

Significant risks (continued)

Completeness of Accrued Expenditure

Risk identified

Under UK auditing standards, there is a presumed risk in respect of revenue recognition due to fraud. We have rebutted this risk, and instead believe that the fraud risk lies with the completeness of expenditure, particularly in relation to year-end accruals.

There is an inherent fraud risk associated with the under-recording of expenditure in order for the Council to report a more favourable year-end position.

Therefore we identified a risk that the Authority could materially misstate its expenditure through the understatement of accruals in an attempt to report a more favourable year-end position.

Deloitte response

We have obtained an understanding and tested the design and implementation of the key controls in place to ensure the completeness of accruals and identified a number of insights in relation to support for accruals accounted for, see pages 25-28 for insights raised; and

We have identified through testing of year-end creditors and accruals that the Council have accrued for items where no liability exists, we identified a factual error of £0.7m which when extrapolated totalled £4.7m, in addition, we identified a 'central accrual' for £2.0m was raised to prudently cover for those liabilities not accounted for at the time of the ledger closedown in mid-April. See page 31 for uncorrected misstatements. This work is subject to final partner and quality review.

Deloitte view

This work is ongoing and subject to partner and quality review, we will provide a verbal update in relation to the progress of this work at the Audit and Governance Committee meeting on 16 November.

Significant risks (continued)

Valuation of the Council's Pension Fund Liability

Risk identified

The net pension liability is a material element of the Council's balance sheet. The Council is an admitted body of the Dorset County Pension Fund which is administered by Dorset Council. The valuation of the Scheme relies on a number of assumptions, including actuarial assumptions, and actuarial methodology which results in the Council's overall valuation. Furthermore there are financial and demographic assumptions used in the calculation of the Council's valuation – e.g. the discount rate, inflation rates, and mortality rates. These assumptions should also reflect the profile of the Council's employees, and should be based on appropriate data.

We identified a risk that the assumptions and methodology used in the valuation of the Council's pension obligation were not reasonable. This could have had a material impact to the net pension liability accounted for in the financial statements.

Deloitte response

We have obtained an understanding and tested the design and implementation of the key controls in place in relation to the review of the assumptions by the Council, this work is currently being finalised.

We have evaluated the competency, objectivity, and independence of the actuarial specialist with no issues identified.

We have reviewed the methodology and appropriateness of the assumptions used in the valuation, utilising a Deloitte Actuary to provide specialist assessment of the variables used, this work is currently being finalised.

We have reviewed the pension related disclosures in respect of actuarial assumptions in the financial accounts for consistency with the Actuary's report, this work is currently being finalised.

In addition, we are awaiting a conclusion in respect of the adjustments of the pensions liability as a result of the McCloud and Goodwin cases which are covered in more detail below.

<u>McCloud Judgment</u>

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

The former district and County Councils commissioned their actuaries in the prior year to revise its liability assumptions for the LGPS. Within the 2019/20 financial statements a revision been made to the previous allowance for the recent McCloud ruling (following the publication of the Ministry of Housing, Communities and Local Government (MHCLG) as the consultation was completed in July 2020. The impact is not expected to be material.

Significant risks (continued)

Valuation of the Council’s Pension Fund Liability (continued)

Deloitte response (continued)

Goodwin Judgement

The Goodwin judgement relates to sex discrimination as a result to changes that were made to pension rights for same sex married couples and relates to a tribunal ruling that was made on the 20th June 2020. For accounting at 31 March 2020, we note that the Council’s pensions accounting in respect of LGPS makes no allowance for the Goodwin ruling.

Our pension specialists are currently estimating the impact of the Goodwin Case which could be in the order of 0.2% of the defined benefit obligation which is approximately £3.5m and is not considered to be material. An unadjusted misstatement has been raised, see page 30.

Deloitte view

Testing is ongoing, we will provide a verbal update in relation to the progress of this work at the Audit and Governance Committee meeting on 16 November.

Significant risks (continued)

Management Override of Controls

Risk identified

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

The key judgements in the financial statements include those which we have selected to be the significant audit risks, (completeness of expenditure, pension valuations and the Council’s property valuations) and any one off and unusual transactions where management could show bias. These are inherently the areas in which management has the potential to use their judgment to influence the financial statements.

Deloitte response

We tested the design and implementation of key controls in place around journal entries and key management estimates.

Journals

We have used our Spotlight data analytics to risk assess journals and select items for detailed follow up testing. The journal entries were selected using computer-assisted profiling based on areas which we consider to be of increased interest. We have tested the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of financial reporting.

Estimates

We reviewed accounting estimates for biases that could result in material misstatements due to fraud.

The key judgements in the financial statements are those selected as significant audit risks and other areas of audit interest: completeness of expenditure, valuation of the Council’s property, the pension liability, as discussed elsewhere in this report.

We reviewed accounting estimates for biases that could result in material misstatements due to fraud.

We tested accounting estimates and judgements, focusing on the areas of greatest judgement and value.

Significant transactions

We did not identify any significant transactions that were outside of the normal course of business where the business rationale was not clear.

Deloitte view

We identified that during the audit closedown process a total of 64 journals were raised and reviewed by the same individual see insights raised on page 25.

No other issues were identified from our testing.

Note, this work is subject to additional journal sample testing and final partner and quality review and we will provide a verbal update in relation to the progress of this work at the Audit and Governance Committee meeting on 16 November.

Significant risks (continued)

Value for Money – CQC and Ofsted concerns regarding sustainable resource deployment and working with partners and other third parties.

Risk identified
In July 2018, Dorset County Council received the findings of an inspection by Ofsted, the Care Quality Commission (CQC), HMI Constabulary and Fire & Rescue Services (HMICFRS), and HMI Probation (HMIP) completed in May 2018 into the multi-agency response to child sexual exploitation, children associated with gangs and at risk of exploitation, and children missing from home, care, or education in Dorset.

The report identified that: there are many concerns regarding practice in Dorset County Council, including: '*the most vulnerable children are not being sufficiently safeguarded by local authority and while some work is of a reasonable quality, the poorest work is very poor*'. The report noted that the Council needed to ensure that it effectively balances an outward focus on partnership working alongside the comprehensive internal improvement work underway.

In March 2019 Dorset County Council received the findings of a follow up inspection by Ofsted and the CQC completed in February 2019 of Special Education Needs / Disabilities provision in Dorset (specifically where Dorset County Council is responsible). This follow up inspection was to consider whether the local area has made sufficient progress in addressing the areas of significant weakness first identified in their March 2017 inspection. The inspectors were of the opinion that local area leaders have not made sufficient progress to improve a number of weaknesses which remained present.

As a result, the inspectors referred the matter to the Department of Education and NHS England for consideration and further action. This can include the Secretary of State using his powers of intervention.

The issues described above were evidence of weaknesses in proper arrangements for planning, organising, and developing the workforce effectively to deliver strategic priorities and working with third parties effectively to deliver strategic priorities. We therefore issued a modified opinion in respect of this specific matter for the year-ended 31 March 2019 and in our plan we reported that these matters continued to present a significant risk for the year-ended 31 March 2020.

Significant risks (continued)

Value for Money – CQC and Ofsted concerns regarding sustainable resource deployment and working with partners and other third parties.

Deloitte response
CQC and Ofsted concerns regarding sustainable resource deployment and working with partners and other third parties.

- We liaised with management to discuss progress made in respect of the findings identified and evidenced the actions being taken by the Council's Executive Director People – Children, which demonstrated an improved approach to planning, organising, and developing the workforce effectively to deliver strategic priorities and working with third parties effectively to deliver against the strategic priorities.
- Dorset was subject to a focussed visit by OFSTED in October 2019 which showed improvement and positive steps taken by the Council. The report stated that '*changes in the senior leadership team and local government re-organisation have significantly impacted on the pace of improvement in children's services*', '*children are now benefiting from much better help and protection*', and the new executive director of children's services and her senior team are aware the practice remains too variable and have a clear understanding of what needs to improve. However, we note that OFSTED have reported that improvements are still required, these include:
  - The conclusion that quality assurance systems are in place, but these do not provide senior leaders with a realistic understanding of the quality of practice or help them to understand the experience of children;
  - a follow up meeting was held and an annual conversation letter issued in March 2020 which included two areas of concern in relation to a live multi-agency child exploitation audit carried out by the Council which identified further improvements required to improve the assessment, planning, and intervention processes in this area; and
  - it was identified that the Local Authority had been using unregistered schools. This presents a risk that there is limited oversight or controls in place to ensure that the provision provides a safe, effective, and suitable education for these vulnerable pupils.
- We have finalised our work in relation to internal audit reports issued, specifically Fostering, Children's Social Care Caseload Management, Framework for Assessing Effectiveness of Social Care Practice, Use of Pupil Premium for Looked After Children (LAC) and Commercial Contract Management which includes Children's Services. We identified that a series of improvements are required specifically within the Use of Pupil Premium for LAC report, which received a partial assurance rating. This was classified as a high corporate risk and identified four priority 1 rated recommendations which presented the risk that interventions in operation may lead to unsafe interactions and poor learning benefits for LAC as well as interventions that do not represent value for money. This latter internal audit was specifically in relation to a virtual school setting. In addition, there were partial assurance ratings with a medium corporate risk attached to the following reports issued:
  - Framework for Assessing Effectiveness of Social Care Practice;
  - Commercial Contract Management which includes Children's Services; and
  - Fostering.

The issues described above are evidence of weaknesses in proper arrangements for planning, organising and developing the workforce effectively to deliver strategic priorities and working with third parties effectively to deliver strategic priorities.

Significant risks (continued)

Value for Money – CQC and Ofsted concerns regarding sustainable resource deployment and working with partners and other third parties.

Deloitte response (continued)

Value for Money Opinion

Under the National Audit Office's Code of Audit Practice, we are required to report whether, in our opinion, the Council has made proper arrangements to secure economy, efficiency, and effectiveness in its use of resources. The Code and supporting Auditor Guidance Notes require us to perform a risk assessment to identify any risks that have the potential to cause us to reach an inappropriate conclusion on the audited body's arrangements. Note: page 34 includes a sector update in respect of the approach to our audit requirements around Value for Money (the arrangements to secure economy, efficiency, and effectiveness in the use of resources).

Deloitte risk assessment

- We reviewed the Council's draft Narrative Report, Annual Governance Statement and relevant Council papers and minutes.
- We considered the Council's financial results for the year.
- We considered matters identified by the National Audit Office as potential value for money risks for Councils for 2019/20.
- We reviewed all Ofsted reports issued in 2019/20.
- We considered that the significant value for money risk remained that identified in our audit plan and addressed above.

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Deloitte view

Based upon the work performed in our risk assessment, we identified significant risks in respect of sustainable resource deployment and working with partners and other third parties. Our anticipated conclusion on the Council's arrangements is an except for conclusion in relation to Children's Services and the related CQC and Ofsted concerns regarding sustainability and working with partners and other third parties.

This work is subject to final quality review and we will provide a verbal update in relation to the progress of this work at the Audit and Governance Committee meeting on 16 November.

Our audit report

Matters relating to the form and content of our report

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

Page 21

Our opinion on the financial statements

Our opinion on the financial statements is anticipated to be unmodified.

Material uncertainty related to going concern

We have not identified a material uncertainty related to going concern or any issues with the appropriateness of the use of the going concern basis of accounting.

Emphasis of matter and other matter paragraphs

There are two matters we judge to be of fundamental importance in the financial statements that we consider it necessary to draw attention to in an emphasis of matter paragraph.

These are in relation to property and pension asset valuations requiring a material uncertainty as a result of the unknown impact of Covid-19.

Our value for money conclusion

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money).

Our anticipated conclusion on the Council’s arrangements is an except for conclusion in relation to Children’s Servicesand the related CQC and Ofsted concerns regarding sustainability and working with partners and other third parties.

Other reporting responsibilities

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

Your annual report

We are required to report by exception on any issues identified in respect of the Narrative Report and Annual Governance Statement.

	Requirement	Deloitte response
Narrative Report	The Narrative Report is expected to address (as relevant to the Council): - Organisational overview and external environment; - Governance; - Operational Model; - Risks and opportunities; - Strategy and resource allocation; - Performance; - Outlook; - Basis of preparation; and - The impact of Covid-19, see pages 21-22.	We have assessed whether the Narrative Report has been prepared in accordance with CIPFA guidance. We have also read the Narrative Report for consistency with the annual accounts and our knowledge acquired during the course of performing the audit, and is not otherwise misleading. Our review identified a number of minor areas where the Narrative Report needed revising in order to comply with guidance and to ensure that they were fair, balanced and understandable, which have been reflected in the final version. We have also noted that the updated narrative report discloses matters related to Covid-19, however, regarding compliance with the guidance and from comparison with other Local Authorities we identified that the disclosures in respect of Covid-19, the disclosures in relation to potential risks and impacts on future funding should be considered in more detail and that these considerations be explicitly stated.
Annual Governance Statement	The Annual Governance Statement reports that governance arrangements provide assurance, are adequate and are operating effectively.	We have assessed whether the information given in the Annual Governance Statement meets the disclosure requirements set out in CIPFA/SOLACE guidance, is misleading, or is inconsistent with other information from our audit. Our review process is ongoing in this area and we will communicate any adverse findings to the Committee.

The Impact of Covid-19

Covid-19 pandemic and its impact on our audit.

CIPFA has issued guidance highlighting the importance of considering the impact of Covid-19 in preparation of the 2019/20 financial statements, including communicating risks and governance impacts in narrative reporting. This is consistent with the Financial Reporting Council's guidance to organisations on the importance of communicating the impact of Covid-19 and related uncertainties, including their impact on resilience and going concern assessments.

Entity-specific explanations of the current and expected effects of Covid-19 and the Council's plans to mitigate those effects should be included in the narrative reporting (including where relevant the Annual Governance Statement), including in the discussion on Principal Risks and Uncertainties impacting an organisation.

We are currently finalising our conclusions in relation to the impact of Covid-19.

Impact on the Council	Impact on annual report and financial statements	Impact on our audit
We have considered the key impacts on the business such as: • Interruptions to service provision • Unavailability of personnel • Reductions in income • The closure of facilities and premises.	We have considered the impact of the outbreak on the annual report and financial statements, discussed further on the next page including: • Principal risk disclosures • Impact on property, plant and equipment • Impact on pension fund investment measurement and impairment • Financial sustainability assessment • Events after the reporting period and relevant disclosures • Narrative reporting.	We have considered the impact on the audit including: • Resource planning • Timetable of the audit • Impact on our risk assessment • Logistics including meetings with entity personnel and screen sharing where appropriate to perform inspection • Secure online file sharing via Deloitte Connect.

The Impact of Covid-19

Impact on annual report and financial statements	
Impact on property, plant and equipment	The Royal Institute of Chartered Surveyors has issued a practice alert, as a result of which, valuers have identified a material valuation uncertainty at 31 March 2020 for most types of property valuation. External valuations for the Council has shown that a material uncertainty clause has been included. The Council have disclosed this in the financial statements and this will result in an Emphasis of Matter in our audit report.
Impact on pension fund asset measurement	As a result of the Covid-19 pandemic pension fund investments have been subject to volatility. It is important to ensure that measurements for the IAS 19 report are updated to the most recent available data as at 31 March 2020. Where Covid-19 has caused such volatility it may mean that the inputs used in the fair value measurement may change and may require a change of measurement technique, and consideration of the level of uncertainty in valuations where there is significantly more estimation. The Council have disclosed this in the financial statements and this will result in an Emphasis of Matter in our audit report.
Events after the reporting period and relevant disclosures	Local authorities began to see the most substantial impacts of Covid-19 in March 2020 and therefore before the end of the reporting period. The Council will need to consider the events after the reporting period and whether these events will be adjusting or non-adjusting and make decisions on a transaction by transaction basis. The council will need to make significant judgements about these decisions and the nature of the Covid-19 pandemic will mean that they will need to continually review and update these assessments up to the date the accounts are authorised for issue.
Narrative report	The following areas need to be considered by local authorities as having being impacted on by the Covid-19 pandemic. • Narrative reporting as well as the usual reporting requirements will need to cover the effects of the pandemic on services, operations, performance, strategic direction, resources, and financial sustainability. • Reporting judgements and estimation uncertainty, the Council will need to report the impact on material transactions including decisions made on the measurements of assets and liabilities. We note that the updated narrative report discloses matters related to Covid-19, however, regarding compliance with the guidance and from comparison with other Local Authorities we identified that the disclosures in respect of Covid-19, the disclosures in relation to potential risks and impacts on future funding should be considered in more detail and that these considerations be explicitly stated.
Covid-19 related income pre year-end	Covid-19 LA Support grant was passed out to Councils by MCHLG on March 27 2020. The first tranche of support for LAs totalled £1.6bn, Dorset Council received £10.6m which is immaterial. This grant was unringfenced and without conditions and therefore has been recognised in income with any unspent amounts carried in reserves.

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

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

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

What we don't report

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

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

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

The scope of our work

Our observations are developed in the context of our audit of the financial statements.

We described the scope of our work in our audit plan and again in this report.

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

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

Ian Howse

for and on behalf of Deloitte LLP

Cardiff

11 November 2020

Appendices

Other significant findings

Internal control and risk management

During the course of our audit we have identified a number of internal control and risk management findings, which we have included below for information. We also have in the appendix detailed observations on the valuation process, including recommendations on how to improve the process for the audit next year.

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

	Observation	Deloitte recommendation	Priority	Management Response
1	**Journals raised and reviewed by the same individual** We identified in the financial closedown process that 64 journals had been posted where the individual who raised the journal also subsequently reviewed and posted the journal. This involved two separate individuals. The journals related to cash and investment items where we are able to rely on third party confirmations to ensure the completeness and accuracy of the posting. Management has informed us that due to staff shortages that this was a one-off to enable accounts closure by the required deadline and that since our finding, the journal has been secondarily reviewed. We were aware of the staff shortage in this department and the explanation is in line with our knowledge of the staff shortage and reporting lines.	It is recommended that the Council system enforces all journals and where this may not be possible that the Council's journal review log be checked each month to see if any journals have been raised and reviewed by the same individual. If this has occurred a separate review of that journal should be undertaken and recorded. In addition, we recommend that the journal review log should include the date the journal was posted and the date the journal was reviewed.	High	Future procedures will include a review by Corporate Finance to ensure that all journals >£50k have been reviewed by an independent person. In all cases for journals >£50k, review will be undertaken in a timely manner, by a suitably responsible officer with appropriate knowledge.
2	**Arrangements to secure economy, efficiency and effectiveness in the use of resources.** As set out on pages 16 to 18, we have modified our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources due to evidence of weaknesses in proper arrangements for planning, organising, and developing the workforce effectively to deliver strategic priorities and working with third parties effectively to deliver strategic priorities.	We recommend the Council completes the actions required as soon as possible in 2019/20.	High	Accepted.

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Other significant findings (continued)

Internal control and risk management

	Observation	Deloitte recommendation	Priority	Management Response
3	**Accruing for costs where no obligation exists as goods/service not received.** We identified that a number of accruals have been posted where a liability did not exist as at 31 March 2020. This includes a 'central accrual' of £2.0m which was posted to compensate for any accruals which may have been missed due to early closedown of the ledger. In addition, there were three capital accruals totalling £0.7m which were made where the works were undertaken and completed post year-end.	It is recommended that accruals are only accounted for when an obligation exists. In addition, it is recommended that appropriate review controls be implemented to ensure spurious journals are not posted and that a robust process be developed to ensure that accruals are appropriately captured at year-end.	Medium	The central accrual is a management judgement, set at an amount determined in context for each financial year. Guidance, training and support, including a flow chart will be provided to those involved in the accruals process, as mitigation to reduce exceptions of incorrect specific accruals being processed. Other year-end adjustments, such as accruals, fall within the process to review journals >£50k as referred to in finding 1 above, which will capture all significant and material entries posted. Also see finding 7 below with regards to non-trade accruals.
4	**Revaluations** As part of our financial audit we engaged a valuation specialist to assist the audit team with testing the appropriateness of revaluations performed on property and land. The specialist has raised a number of areas for improvement which are to be considered for future valuations, the review required significant specialist input due to there being three separate revaluations performed in 2019/20, and the recommendations suggest improvements in procedures and processes in line with RICS guidelines. These recommendations have been communicated to management.	It is recommended that management work with the Estates Manager to ensure these recommendations are implemented in a timely manner.	The recommendations raised relate to future valuations and did not impact our audit approach.	The recommendations will be reviewed by management, and actions taken to address the findings in conjunction with their teams, colleagues, internal audit and external audit as appropriate.

Other significant findings (continued)

Internal control and risk management

	Observation	Deloitte recommendation	Priority	Management Response
5	**IT Findings** As part of our financial audit we engaged IT specialists to assist the audit team with testing the appropriateness of the Council's IT systems which have a direct impact on the production of the financial statements. The IT specialists identified a number of observations which have been communicated to management.	It is recommended that management work with the IT Manager to ensure these observations are addressed in a timely manner.	None of the observations impacted on our audit approach.	The recommendations will be reviewed by management, and actions taken to address the findings in conjunction with their teams, colleagues, internal audit and external audit as appropriate. Detailed responses are available for all findings raised at the pre-draft ISA260 stage.
6	**Payroll and bank reconciliations and documentation** We identified that the reconciliations between the trial balance and the supporting working papers for both payroll and cash were incomplete, not easy to reconcile, and required significant efforts to understand and audit. This was largely due to there being two payroll systems in operation during the year and the fact that the predecessor bank accounts were split across multiple ledger codes with no clear reconciliations setting out which bank accounts the codes related to.	It is recommended that bank and payroll system reconciliations are completed on a regular as well as annual basis to support monthly reporting and the financial statements. These reconciliations should be prepared so that there is clear evidence that the reconciliation is comprehensive, complete and fully substantiated.	Medium	The situation described was due to convergence of payroll and banking processes for predecessor councils. Legacy payroll systems have now been decommissioned, except SAP which is ongoing for Dorset Council. Reconciliation is completed using established processes for SAP, and further efficiency improvements will be realised following the move to one banker, scheduled to be in effect before 31 March 2021.
7	**Non-Trade Accruals** Corporate finance holds a central report of all non-trade payments made after 31 March 2020. Service accountants are requested to update the spreadsheet indicating whether payments have been accrued for or not, with either a reason for why they have not been accrued, or the document number for the accrual posted. There is no review of these non-trade pay accruals posted or any verification that the items marked as "accrued" on Corporate Finance's spreadsheet have been treated as indicated.	It is recommended that management perform a subsequent review of non-trade payments accruals posted and evidence this explicitly by sign-off that this review is complete and appropriate.	Medium	Corporate Finance identify and report potential non-trade accruals, and distribute an Excel workbook for Accountancy officers to review for their area of responsibility, and comment, amend or delete as applicable. Procedures will be revised for a suitably responsible officer to indicate in that workbook that they have reviewed each accrual before the overall accrual is posted.

Other significant findings (continued)

Internal control and risk management

	Observation	Deloitte recommendation	Priority	Management Response
8	**Notification of accruals** We identified from our unrecorded liability testing, specifically in relation to payments processed in 66 days subsequent to 31 March 2020, that eight items related to pre year-end and had not been accounted for, these are below our reporting threshold, however, we note that the costs were not notified to finance until after the Income and Expenditure posting cut-off date. In addition, we identified one of these items related to Adult Services where the invoice was processed initially into another system which interfaced into SAP for the payment to be made and due to the complexity of the work, not all costs are recognised and accrued. Additionally, the interface between the Adult Services system and SAP occurred shortly after the Council internally closed posting to the I&E to allow future processes to commence.	It is recommended that the Council consider extending their income and expenditure cut-off date and also review the date when the Adult Services system interface occurs.	Medium	Team resources for the Accounts Payable (AP) and Accounts Receivable (AR) functions are prepared and organised throughout March and the first week in April to deal with year-end processing. Finance staff e.g. Accountancy and the S2P Hub, and officers from the business such as shoppers, budgets holders and their support teams contribute to achieving these deadlines e.g. orders, good receipting, invoicing, accruals and other year-end adjustments. The majority and most significant transactions are prioritised and dealt with, and remaining transactions are not material. Accountancy and colleagues in the business also have the opportunity to accrue for income and expenditure not captured by the AP and AR processes, including payments and billing processed through feeder systems. This is in support of the faster closing initiative, earlier deadlines in the Accounts and Audit Regulations, and to support forward looking priority activities of the Council on budget planning, transformation and savings. In addition, a general accrual was made in the 19/20 accounts to mitigate against the risk of expenditure that should fall to that year not being accrued for due to timing.

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Other significant findings (continued)

Internal control and risk management

	Observation	Deloitte recommendation	Priority	Management Response
9	**Effective date of valuations** As required by paragraph 4.1.4.3 4) of the Code: The effective date of valuations is to be disclosed whereby the total revalued amount will need to be analysed across each of the preceding financial years where a rolling programme of revaluations has been used. This has not been completed and presented within the statement of accounts for 2019/20.	It is recommended that this be completed and implemented for the 2020/21 statement of accounts.	Low	The accounting policies explain the valuation process. The recommendations will be reviewed by management in preparing the 2020/21 financial statements.
10	**Retention of data relevant to the disaggregation process.** Our testing of disaggregation has identified that two of our samples do not have available evidence to support the judgement applied. We note that both of these judgements were ultimately approved and signed off by the Oversights Group which ensures that both Dorset and BCP have agreed the balance to be disaggregated. However we were unable to evidence and re-perform the calculations to ensure their accuracy. These are in relation to: • £19.7m disaggregated in relation to infrastructure, whereby a 5.6% disaggregation percentage was applied; and • £0.04m has been disaggregated for the Commissioning Health Team where the people responsible for the judgements and working papers have since left the Authority.	It is recommended that data is retained to support all judgements made in the completion of the financial statements. Note: We will include this item as a representation within the Management Representation Letter.	Low	Comprehensive records have been maintained and provided for balance load of predecessor assets and liabilities, as well as disaggregation for Bournemouth, Christchurch and Poole Council, and for Weymouth Town Council. An agreed method, basis and decision log is available for the disaggregation with BCP Council, as well as a detailed Excel workbook agreed between the finance teams and showing the workings behind disaggregation. The basis of disaggregation results in a percentage ranging from the default 11.7% to something more scientific and relevant to the balance being disaggregated. As context, the net value of disaggregation to BCP was a cash payment to DC in excess of £20m.

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Other significant findings (continued)

Financial reporting findings

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

Qualitative aspects of your accounting practices:

No issues have been identified.

Other matters relevant to financial reporting:

No additional matters identified other than those reported in the preceding pages.

Significant matters discussed with management:

Other than those detailed in this report, there have been no significant matters arising from the audit.

Interaction with Internal Audit:

The audit team, has completed an assessment of the independence and competence of the internal audit department and reviewed their work and findings where relevant to the external audit. We do not have any significant findings.

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

Audit adjustments
Unadjusted misstatements

The following uncorrected misstatements disclosure deficiencies were identified at the time of this report:

		Debit/ (credit) CIES £m	Debit/ (credit) in net assets £m	*Debit/ (credit) usable reserves £m*	If applicable, control deficiency identified
As at 31 March 2020					
Pension Liability - Goodwin	(1)	3.5	(3.5)	3.5	N
General Accruals	(2)	(6.4)	6.4	*(6.4)*	Y
Surplus assets	(3)	6.7	(6.7)	*6.7*	N
Total		**3.8**	**(3.8)**	***3.8***	
As at 1 April 2019					
Classification between Long and Short Term Debtors and investments	(4)		(0.0)	*(0.0)*	N

(1) Our pension specialists are currently estimating the impact of the Goodwin Case which could be in the order of 0.2% of the defined benefit obligation. This is approximately £3.5m and is not considered to be material.

(2) General accruals – extrapolated error £6.4m, a factual error was identified in our sample testing of £0.7m which related to capital works not yet undertaken, this resulted in an extrapolated error of £4.7m. In addition, we identified a £2.0m 'central accrual' which was posted as a prudent estimate of liabilities not yet captured during the second week of April which was when the ledger was closed. We have deduced that £1.7m of this £2.0m does not relate to any particular liability. An insight has been raised in relation to this, see insight on page 26.

(3) Surplus assets - North Quays Council Office is surplus to requirement and per the CIPFA code this should be held at fair value under IFRS 13. However, the property was added onto asset register on 1 April 2019 at £3.1m. It was then depreciated using 1 year useful economic life (UEL) April 2019 – January 2020 for £2.5m, at which point it was revalued up to £4.2m. It was then further depreciated for January 2020 – March 2020 based on the revalued amount for £4.2m giving total a total depreciation charge of £6.7m which should not have been applied as the asset is a surplus asset. This is an isolated matter and therefore no control finding raised.

(4) We identified that the certified financial statements for West Dorset as at 31 March 2019 had a differing amount to that which was uploaded for the 1 April 2019 Balance Sheet comparisons for both Long Term and Short Term Debtors and Investments. This differences were equal and opposite and represented a classification change. This is a timing matter where these were late adjustments and as the differences were not materially different to the data being uploaded by Dorset Council it was determined not to post the adjustment. In detail:

   (1) Long Term Investments are understated by £4.3m;

   (2) Short Term Investments are overstated by £4.3m;

   (3) Long Term Debtors are overstated by £1.3m; and

   (4) Short term debtors are understated by £1.3m.

Audit adjustments
Unadjusted disclosure deficiencies

The following uncorrected disclosure deficiencies were identified at the time of this report:

Disclosure Deficiencies

At the time of issuing this report we are finalising our review of the CIPFA checklist. We will update management on our findings and where appropriate request revision in order to comply with guidance.

Revaluations disclosure: We have identified that the CIPFA code requires that revaluations requirement to include an analysis of revalued amounts over each year of the revaluation cycle with a template disclosure provided within the CIPFA code, given this is the first year of operation of Dorset Council, the reader can deduce that this is the first revaluation cycle but going forward this disclosure will ensure the revaluation cycle is complete and includes all assets that the Council owns.

Contingent Assets: We have identified from testing a sample of S106 agreements that the contingent asset recorded is understated by £0.5m, which when extrapolated across the whole population is £1.2m.

Fraud responsibilities and representations

Responsibilities explained

Responsibilities:

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

Audit work performed:

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

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

Required representations:

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

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

Concerns:

No concerns identified.

Independence and fees

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

Independence confirmation	We confirm that we comply with APB Ethical Standards for Auditors and that, in our professional judgement, we and, where applicable, all Deloitte network firms are independent and our objectivity is not compromised.
Fees	The audit fee for the Council for 2019/20, in line with the fee range provided by Public Sector Audit Appointments (PSAA), is £180,000. We are liaising with management to agree any audit overruns in respect of Covid-19 and additional audit work which was not foreseen at the time of agreeing the audit fee, specifically in relation to property valuations, payroll, and cash work where internal control recommendations have been identified. No non-audit fees have been charged by Deloitte in the period.
Non-audit services	In our opinion there are no inconsistencies between APB Ethical Standards for Auditors and the Council's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the Council, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence. Deloitte LLP audit the Dorset Council Pension Fund accounts where a separate engagement team undertakes the pensions audit work and the fees are not significant to the firm or the partner.

Sector Developments

Revised Value for Money audit requirements

The National Audit Office has revised AGN03 reflecting the new Code of Audit Practice applicable for 2020/21 audits onwards

Issue

In January 2020 the National Audit Office issued the new Code of Audit Practice for 2020/21 onwards. This introduced significant changes to the requirements around Value for Money (the arrangements to secure economy, efficiency, and effectiveness in the use of resources).

On 15 October, the National Audit Office published Auditor Guidance Note 03 (AGN03), Value for Money, setting out more detailed guidance on how the new requirements should be implemented. Key features of the requirements include:

- For all bodies, the auditor will need to provide a public narrative commentary against the Value for Money criteria in a new “Auditor’s Annual Report” (AAR), [to be issued alongside the audit opinion for NHS bodies]. This commentary will include a summary against each of the reporting criteria, setting out the work undertaken, and judgements and local context relevant to the findings.
- This commentary needs to be supported by more extensive work to understand the body’s arrangements to secure economy, efficiency and effectiveness, to support this commentary and to identify whether there are risks of significant weaknesses in arrangements.
- If a risk of significant weaknesses is identified, additional work is required to determine whether there are significant weaknesses and to make relevant recommendations if this is the case on a timely basis, which will also be explained in the Auditor’s Annual Report. The AAR will also include follow up on previous recommendations in respect of significant weaknesses and whether they’ve been implemented satisfactorily.
- The audit opinion will continue to include reporting by exception, though now this will be where the auditor has identified a significant weakness in arrangements rather than an overall conclusion on arrangements.

The three criteria that would be considered in Value for Money work are be:

- **Financial sustainability:** How the body plans and manages its resources to ensure it can continue to deliver its services.
- **Governance:** How the body ensures that it makes informed decisions and properly manages its risks.
- **Improving economy, efficiency and effectiveness:** How the body uses information about its costs and performance to improve the way it manages and delivers its services.

The National Audit Office and the audit firms are continuing to discuss the practical implementation of these new requirements and expectations as to the extent of procedures underpinning these requirements. Expectations in this area are likely to continue to evolve as practical issues emerge in implementation.

Next steps

- We will undertake the required VfM planning work under the revised procedures and we will report to the Audit Committee on our planned approach and any identified risks of significant weaknesses in arrangements.
- We will agree with management the timing for performing additional work on arrangements ahead of the year-end. When the national timetable is announced, we will agree with you the impact of the additional reporting requirements on the planned reporting timetable.
- As the detailed impact on scope becomes clearer, we will discuss and agree the impact of the required scope changes with management.
- Our year-end reporting will include our draft findings ahead of issue of the Auditor’s Annual Report.

Deloitte Confidential: Government and Public Services

Redmond Review of financial reporting and external audit

The review has recommended significant changes to the arrangements governing local audit.

Issue

On 10 July 2019, the Secretary of State for Housing, Communities & Local Government asked Sir Tony Redmond to conduct a Review of the arrangements in place to support the transparency and quality of local authority financial reporting and external audit including those introduced by the Local Audit and Accountability Act 2014, with the report issued on 8 September 2020.

The scope of the review covered: whether the audit and related regulatory framework for local authorities in England is operating in line with the policy intent set out in the Local Audit and Accountability Act 2014 (which replaced the Audit Commission arrangements); whether the reforms have improved the effectiveness of the control and governance framework along with the transparency of financial information presented by councils; whether the current statutory framework for local authority financial reporting supports the transparent disclosure of financial performance and enables users of the accounts to hold local authorities to account; and to make recommendations on how far the process, products and framework may need to improve and evolve to meet the needs of local residents and local taxpayers, and the wider public interest.

The review's recommendations include:

- Proposing a single overarching body, the Office of Local Audit Regulation ("OLAR"), responsible for the co-ordination and regulation of local audit activity. This would bring together responsibilities currently held by Public Sector Audit Appointments, the National Audit Office, the Financial Reporting Council, and the Institute of Chartered Accountants in England and Wales. The OLAR would also publish reports summarising the results of audits across the sector. The OLAR would report to a new Liaison Committee comprising key stakeholders and chaired by MHCLG on the development of local audit.
- Councils reviewing their governance arrangements, including: the auditor reporting annually to Full Council; considering appointing at least one independent, suitably qualified, member to the Audit Committee; and formalising the Chief Executive Officer, Monitoring Officer and Chief Financial Officer meeting with the Key Audit Partner at least annually.
- Extending the timetable for local authority audits, probably to 30 September from 31 July each year.
- Revising the fee structure for local audit, to appropriately reflect the cost of delivery of audit and the required resources for audit quality.
- The Ministry of Housing, Communities & Local Government should review its framework for assurance over financial sustainability of local government. The review suggests potential additional audit requirements around financial resilience that the OLAR may consider, including audit review of compliance with the CIPFA Financial Management Code (which MHCLG might give statutory status).
- Introducing a new standardised statement of service information and costs prepared by each authority, compared to budget. This is envisaged to be a clearer way to communicate with taxpayers and service users. This report would be subject to some form of audit sign-off. With budgetary performance separately reported, it is suggested CIPFA review the main accounts requirements, which may enable some disclosures to be removed (effectively moving the financial statements to IFRS reporting).

The implementation of most of the recommendations will require further consultation or primary legislation.

Next steps

- We will update the Audit Committee as proposals move forward for implementation of the recommendations.
- We would welcome the opportunity to implement the proposal to report annually to Full Council, and to include a formal meeting with CEO, Monitoring Officer and CFO in our structure of contacts and interactions with the Council.

Deloitte.