



# Audit and Governance Committee

**Date:** Thursday, 16 January 2020  
**Time:** 10.00 am  
**Venue:** Committee Rooms C/D, South Walks House,  
South Walks Road, Dorchester, DT1 1EE

**Membership: (Quorum 3)**

Matthew Hall (Chairman), Richard Biggs (Vice-Chairman), Simon Christopher, Susan Cocking, David Gray, Brian Heatley, Nocturin Lacey-Clarke, Mike Parkes, Bill Pipe and Bill Trite

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

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# **A G E N D A**

## **Page No.**

### **1 APOLOGIES**

To receive any apologies for absence.

### **2 MINUTES**

5 - 10

To confirm the minutes of the meeting held on 3 December 2019.

### **3 DECLARATIONS OF INTEREST**

To receive any declarations of interest.

### **4 PUBLIC PARTICIPATION**

To receive questions or statements on the business of the committee from town and parish councils and members of the public.

### **5 DORSET COUNCIL EU EXIT PREPARATIONS**

To receive a presentation from the Executive Director of Place with regard to preparations being made by Dorset Council in respect of EU Exit.

### **6 EXTERNAL AUDIT PLAN**

11 - 38

To consider a report from Deloitte.

### **7 EXTERNAL AUDIT WORK AND FEES 2016/17 AND 2017/19 KPMG WEYMOUTH & PORTLAND BOROUGH COUNCIL**

39 - 46

To consider a report from the Service Manager (Finance) for Policy and Compliance.

### **8 AUDIT AND GOVERNANCE WORK PROGRAMME**

47 - 54

To review the Audit and Governance Committee Work Programme.

## **9 URGENT ITEMS**

To consider any items of business which the Chairman has had prior notification and considers to be urgent pursuant to section 100B (4) b) of the Local Government Act 1972. The reason for the urgency shall be recorded in the minutes.

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## **DORSET COUNCIL - AUDIT AND GOVERNANCE COMMITTEE**

### **MINUTES OF MEETING HELD ON TUESDAY 3 DECEMBER 2019**

**Present:** Cllrs Matthew Hall (Chairman), Richard Biggs (Vice-Chairman), Simon Christopher, David Gray, Brian Heatley, Bill Pipe and Bill Trite

**Apologies:** Cllrs Susan Cocking, Nocturin Lacey-Clarke and Mike Parkes

**Also present:** Cllr Spencer Flower, Cllr Andrew Parry and Cllr Les Fry

**Officers present (for all or part of the meeting):**

Aidan Dunn (Executive Director - Corporate Development S151), Jonathan Mair (Corporate Director - Legal & Democratic Service Monitoring Officer), Jim McManus (Corporate Director - Finance and Commercial), Rupert Bamberger (Assistant Director SWAP), Sally White (Principal Auditor), Marc Eyre (Service Manager for Assurance), Sarah Parker (Executive Director of People - Children) and Lindsey Watson (Senior Democratic Services Officer)

**49. Minutes**

The minutes of the meeting held on 7 November 2019 were confirmed as a correct record and signed by the Chairman.

**50. Declarations of Interest**

There were no declarations of interest.

**51. Public Participation**

There were no representations from parish or town councils or from members of the public.

**52. Urgent items**

In response to a question, the Executive Director of Corporate Development reported that three sets of accounts for the previous year remained unsigned. Two proposed final versions had been received and it was hoped that these would be signed in the following week.

**53. Finance Report Quarter 2 2019/20**

The committee reviewed the Quarter 2 Finance Report, which had been presented to Cabinet on 5 November 2019.

As requested by the committee, the Executive Director of People - Children and Portfolio Holder for Children, Education and Early Help attended the meeting to answer questions in respect of the Budget for Children's Services:

- Where possible, children would be placed with an appropriate guardian including with other family members
- There was a cost pressure associated with securing accommodation and an issue with capacity. Cabinet had recently agreed to re-establish a children's hub and suitable properties were being looked for
- Demand in this area was high and liaison was being undertaken with the Government as to how they were able to influence national issues in this area
- Areas for focus included the development of a residential hub, training and support for foster parents, preventative work and providing the best service possible where provision was out of county. Work had started but would take time
- The Executive Director confirmed that there had been involvement and support from portfolio holders, Cabinet and Council for work in this area
- In terms of forecasting for future budgets, there would always be an element of being led by demand, however there was recognition that more control could be achieved if the right level of edge of care services were in place
- Part of the Blueprint for Change consultation was about locality area partnership working and working more closely with the community in order to safeguard children
- The Executive Director of Corporate Development noted that part of building the budget for the following year was about trying to anticipate the level of demand on the service. There was a model but it was recognised that some factors could not be anticipated and this needed to be built into the budget
- Reference was made to the disposal of children's homes by the former Dorset County Council and the background to this was discussed. The Executive Director of People, Children, noted that the provision currently being considered by the council was different to what had been in place before. Areas currently being explored included the provision of supported lodgings for 16 to 18 year olds and in particular, a model including partner involvement and contributions and potential income
- In response to a question, the Executive Director of Corporate Development noted that a number of factors were taken into account when setting the budget and this included using market intelligence to understand likely inflationary pressures
- Consideration was given to the number of looked after children in the council area and the budget forecast for the next financial quarter
- The impact of the recent tranche 2 restructure on finance team support for Children's Services was raised and it was noted that moving forward, the model was to have a central corporate finance

team in place with business partners allocated to each service area. The level of resource and expertise required for Children's Services was recognised and would be in place moving forward

- The Chairman commented that although the council should always aim for good value for its services, it was key that the budget fitted the service in this area. There were a lot of pressures in this area and he felt that demand would always outstrip savings that could be made. He felt that the council needed to decide that the service was a priority and budget accordingly and he encouraged the Leader and the Finance Team to provide appropriate funding in order to support looked after children
- A point was noted with regard to reference in the report to Education, Health and Care Plans (EHCP) and the need for further narrative in the report around this area
- The availability and use of reserves was referred to and the opportunities local government reorganisation and subsequent transformation programmes had provided
- Further information on convergence savings would be provided in future reports.

The Chairman thanked the Executive Director of People, Children and Portfolio Holder for Children, Education and Early Help for their attendance and the information they had provided.

The committee considered the issues arising from the rest of the report and during discussion the following points were raised:

- The local government finance settlement would not be known until January 2020 and therefore there would be assumptions in the council's budget. A Budget Scrutiny Councillor Event was to be held on 13 January 2020, to which all councillors had been invited, and further explanation of the budget and assumptions made would be provided. There would also be consideration of the budget at Cabinet in January and Full Council in February. The Council was required to set a balanced budget before the start of the next financial year although it was recognised that adjustments could be made during the year through the quarterly finance reports to Cabinet
- Reserves had been brought together from the six former councils and reviewed, and part of this was to enable £5m of funding to be released from reserves to be established as a transformation fund. Bids would be considered by a group of councillors meeting as the Transformation Board. In response to a question, it was noted that a small number of bids had been considered to date. The fund provided an opportunity to transform the way things were done by the council. The committee would receive further information on work in this area through a future internal audit report and information to be included on the council's risk register
- In response to a question, it was reported that consideration of income generation was being undertaken through the budget process

- Application for government grant funding was also considered where appropriate.

## **Decision**

1. That the Audit and Governance Committee note with concern, the predicted overspend at the end of the second quarter and the change since quarter 1;
2. That the Audit and Governance Committee request that the Executive Director of People, Children's, Executive Director of People, Adults, and relevant portfolio holders attend the meeting of the Audit and Governance Committee on 24 March 2020, when the next finance report is considered, in order to hold a discussion on issues in these areas.

### **54. Report of Internal Audit Activity Plan Progress 2019/20 - November 2019**

The committee received the South West Audit Partnership (SWAP) report of Internal Audit activity plan progress report for the 2019/20 year. The plan progress reports provided an ongoing opinion to support the end of year annual opinion and also provided details of any significant risks that had been identified, along with the progress of mitigating previously identified significant risks by audit. It was reported that the ongoing audit opinion remained as reasonable. A number of partial opinions had been issued and detail was provided within the report. It was also noted that a number of high priority recommendations had yet to be implemented and that the Service Manager for Assurance would be developing a dashboard to enable directorates to monitor the position of recommendations, which it was hoped would improve the position.

Councillors considered the issues arising from the report and during discussion the following points were raised:

- A discussion was held with regard to Homes Dorset Ltd and the recent review of the associated governance arrangements. Points were raised with regard to finances and the directors that were currently appointed. It was noted that the governance arrangements required strengthening and finances set aside were still available. A business case would need to be developed if the company model was to be retained
- In response to a question with regard to checks in place for duplicate payments, it was reported by the Corporate Director for Finance and Commercial that the council had a proportionate approach which was supported by SWAP's use of computerised software to identify potential duplicate payments. There had been staffing vacancies within the team and it was hoped to improve the recovery process as the tranche 2 transitional structure process concluded

- A discussion was held in respect of progress with policy convergence and the Corporate Director, Legal and Democratic provided a brief overview. A request was made for a progress report on this area to be provided to the meeting of the committee in March 2020
- The issue of external audit fees was raised and it was noted that fees had been negotiated. The issue of pace of work had been picked up and it was noted that the council had opted for a higher fee in order to ensure a resourced and timely external audit process.

#### **55. Risk Management Update**

The committee received and considered a report of the Service Manager for Assurance, which provided an update on risk management issues in the council. It was noted that a further breakdown of information would be available in future.

#### **56. Audit and Governance Committee Forward Plan**

The committee's forward plan was reviewed and the following points noted:

- The Executive Director of People, Children and Executive Director of People, Adults and relevant Portfolio Holders to be invited to the meeting on 24 March 2020 when the committee consider the finance quarterly monitoring report
- A report on progress with policy convergence to be provided at the March 2020 meeting
- It was noted that a change to the Constitution in respect of the planning committees had been made and information with regard to this would be provided by email to committee members by the Corporate Director, Legal and Democratic, following the meeting
- It was noted that the Council had agreed that a review of the Constitution would take place after 1 year
- In response to a question it was confirmed that consideration of the Budget for 2020/21 would take place through the scrutiny committees, Cabinet and Full Council.

#### **57. Exempt Business**

There was no exempt business.

**Duration of meeting:** 10.00 - 11.51 am

**Chairman**





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# Partner introduction

## The key messages in this report

I have pleasure in presenting our planning report to the Audit & Governance Committee for the audit of the 2019/20 financial statements. I would like to draw your attention to the key messages of this paper:

### Audit Plan

- We have developed this plan in collaboration with the Council to ensure that we provide an effective audit service that meets your expectations and focuses on the most significant areas of importance and risk to the Council.
- Our basis for calculating materiality is set out on page 9. The basis is consistent with that used for the former County Council.
- We note that a separate Audit Plan will be produced in relation to the Pension Scheme Accounts.

### Significant risks

- These have been identified as:
  - Predecessor body consolidation and disaggregation;
  - Property valuation;
  - Completeness of accrued expenditure;
  - Management override of controls;
  - Defined benefits pension scheme; and
  - Value for money – CQC and Ofsted concerns regarding sustainable resource deployment and working with partners and other third parties.

### Regulatory

- Our audit is carried out under the Code of Audit Practice issued by the National Audit Office.

### Prior year

- 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 the 1 April 2019 Dorset Council was established consolidating the majority of the above named Councils via a transfer by absorption. The former Dorset County Council, Purbeck District Council and East Dorset District Council were certified with unmodified audit opinions. However, we are expecting to issue modified opinions for the other three council's in respect of provisions and fixed asset valuations and the related accounting. These qualifications will be tested in the current year as part of the predecessor body consolidation and the property valuation significant risks.

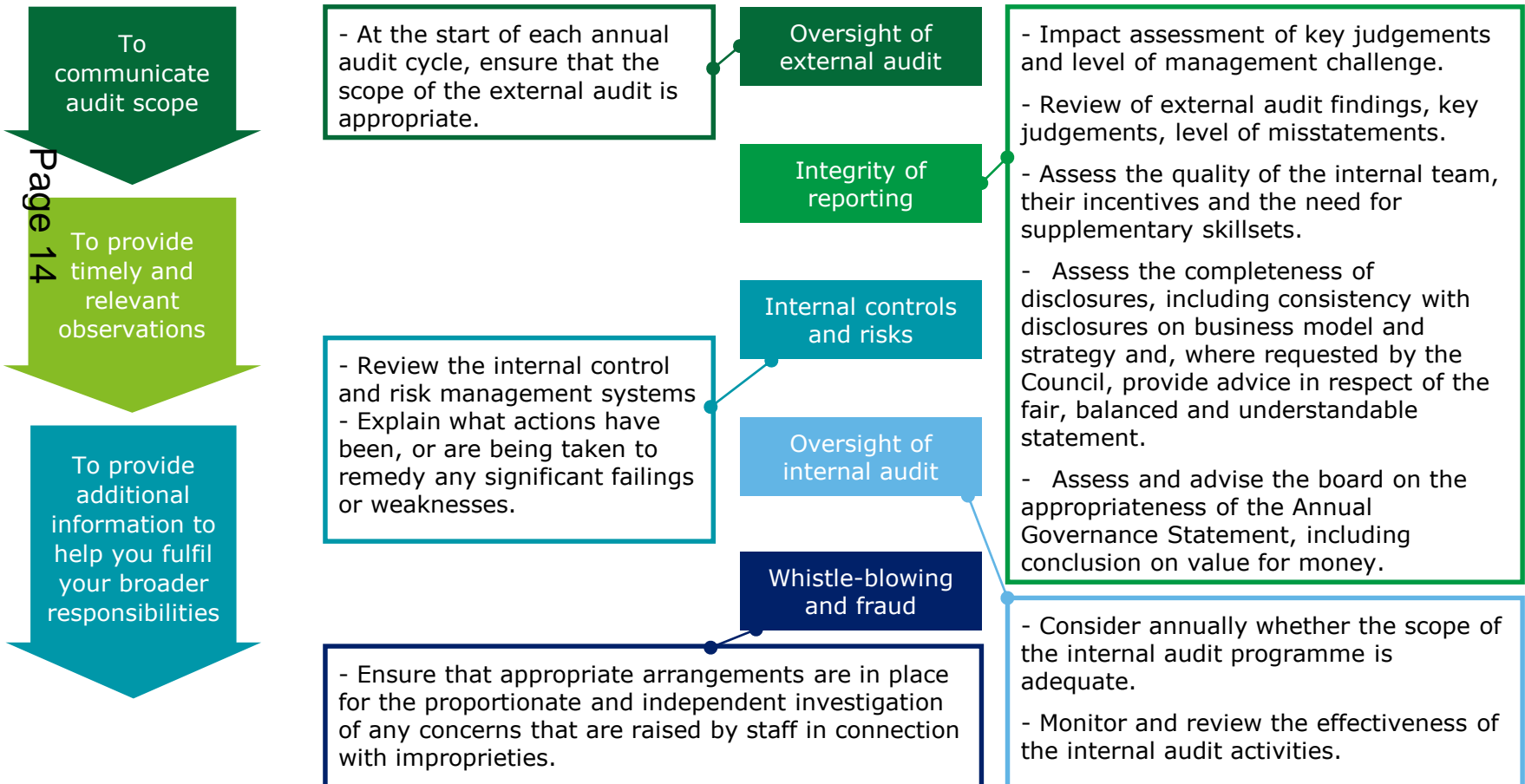
Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

# Responsibilities of the Audit & Governance Committee

## Helping you fulfil your responsibilities

Why do we interact with the Audit & Governance Committee?



# Our audit explained

We tailor our audit to your business and your strategy

## Identify changes in your business and environment

We have spent time with management understanding the current year matters and prepared our risk assessment for the audit, we will continue to keep this under review throughout the audit process. The creation of the opening balance sheet for the Council being a key example.

## Scoping

We anticipate our scope to be in line with the Code of Audit Practice issued by the NAO.  
More detail is given on page 6.

## In our final report

In our final report to you we will conclude on the significant risks identified in this paper, report to you our other findings, and detail those items we will be including in our final report.

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## Determine materiality

We have determined a materiality of £14.165m. This is based on 1.7% of total expenditure per the Council's budget. We will report to you any misstatements above £0.708m. We will report to you misstatements below this threshold if we consider them to be material by nature (i.e. relating to senior staff remuneration). We note that our materiality calculation will be updated during the final audit based on total expenditure per the 2019/20 accounts.

## Significant risk assessment

We have identified significant audit risks in relation to the Council. More detail is given on page 11 to 18.

## Quality and Independence

We confirm all Deloitte network firms and engagement team members are independent of Dorset Council. We take our independence and the quality of the audit work we perform very seriously. Audit quality is our number one priority.

# Scope of work and approach

## Scope: we have three key areas of responsibility under the Audit Code

### Financial statements

We will conduct our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISA (UK and Ireland)") as adopted by the UK Auditing Practices Board ("APB") and Code of Audit Practice issued by the National Audit Office ("NAO"). The Council will prepare its accounts under the Code of Practice on Local Authority Accounting ("the Code") issued by CIPFA and LASAAC.

We are also required to issue a separate assurance report to the NAO on the Council's separate return required for the purposes of its audit of the Whole of Government Accounts and departmental accounts.

### Annual Governance Statement

We are required to consider the completeness of the disclosures in the Annual Governance Statement in meeting the relevant requirements and identify any inconsistencies between the disclosures and the information that we are aware of from our work on the financial statements and other work.

As part of our work we will review the annual report and compare with other available information to ensure there are no material inconsistencies. We will also review any reports from other relevant regulatory bodies and any related action plans developed by the Council.

### Value for Money (VfM) conclusion

We are required to satisfy ourselves that the Council has made proper arrangements for securing financial resilience and economy, efficiency and effectiveness in its use of resources.

To perform this work, we are required to:

- plan our work based on consideration of the significant risks of giving a wrong conclusion; and
- carry out as much work as is appropriate to enable us to give a safe conclusion on the arrangements to secure VfM.

Our work therefore includes a detailed ongoing risk assessment based on the risk factors identified in the course of our audits. This is followed by specific work focussed on the risks identified.

# Scope of work and approach

## Our approach

### Liaison with internal audit

The Auditing Standards Board's version of ISA (UK and Ireland) 610 "Using the work of internal auditors" prohibits use of internal audit to provide "direct assistance" to the audit. Our approach to the use of the work of Internal Audit has been designed to be compatible with these requirements.

We will review their reports and meet with them to discuss their work where necessary. We will review the work plan for internal audit, and where they have identified specific material deficiencies in the control environment we consider adjusting our testing so that the audit risk is covered by our work.

Using these discussions to inform our risk assessment, we can work together with internal audit, where necessary, to develop an approach that avoids inefficiencies and overlaps, therefore avoiding any unnecessary duplication of audit requirements on the Council's staff.

### Approach to controls testing

Our risk assessment procedures will include obtaining an understanding of controls considered to be 'relevant to the audit'. This involves evaluating the design of the controls and determining whether they have been implemented ("D & I").

The results of our work in obtaining an understanding of controls will be collated and the impact on the extent of substantive audit testing required will be considered.

### Promoting high quality reporting to stakeholders

We view the audit role as going beyond reactively checking compliance with requirements: we seek to provide advice on evolving good practice to promote high quality reporting.

We recommend the Council complete the Code checklist during drafting of their financial statements.

We would welcome early discussion on the planned format of the financial statements, and whether there is scope for simplifying or streamlining disclosures, as well as the opportunity to review a skeleton set of financial statements and an early draft of the annual report ahead of the typical reporting timetable to feedback any comments to management.

### Value for Money and other reporting

The Code of Audit Practice requires us to report by exception in our audit report any matters that we identify that indicate the Council has not made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Obtain and refresh our understanding of the Trust and its environment including the identification of relevant controls

Identify risks and any controls that address those risks

Carry out 'design and implementation' work on relevant controls

If considered necessary, test the operating effectiveness of selected controls

Design and perform a combination of substantive analytical procedures and tests of details that are most responsive to the assessed risks

# Continuous communication and reporting

## Planned timing of the audit

As the audit plan is executed throughout the year, the results will be analysed continuously and conclusions (preliminary and otherwise) will be drawn. The following sets out the expected timing of our reporting to and communication with you.

Planning	Interim	Year end fieldwork	Reporting activities
<div>Page 18</div> <ul style="list-style-type: none"> <li>Planning meetings to inform risk assessment; and agree on key judgemental accounting issues.</li> <li>Document our understanding of the Council and key controls and business cycle processes relating to the financial reporting process.</li> <li>Review of key Council documents including Cabinet, Council and Audit &amp; Governance Committee minutes.</li> </ul>	<ul style="list-style-type: none"> <li>Document design and implementation of key controls and update understanding of key business cycles for any changes.</li> <li>Substantive testing of limited areas including fixed asset additions, expenditure, payroll, certain areas of income.</li> <li>Update on value for money responsibilities.</li> </ul>	<ul style="list-style-type: none"> <li>Substantive testing of all areas.</li> <li>Finalisation of work in support of value for money responsibilities.</li> <li>Detailed review of annual accounts and report, including Annual Governance Statement.</li> <li>Review of final internal audit reports and opinion.</li> <li>Completion of testing on significant audit risks.</li> </ul>	<ul style="list-style-type: none"> <li>Year-end closing meetings.</li> <li>Reporting of significant control deficiencies.</li> <li>Signing audit reports in respect of Financial Statements.</li> <li>Issuing Annual Audit Letter.</li> <li>Issuing audit completion certificate.</li> </ul>
2020 Audit Plan	Verbal update to the Audit and Governance Committee	Final report to the Audit and Governance Committee	Any additional reporting as required
November 2019 - January 2020	March – April 2020	June – July 2020	July - August 2020

Ongoing communication and feedback

# Materiality

## Our approach to materiality

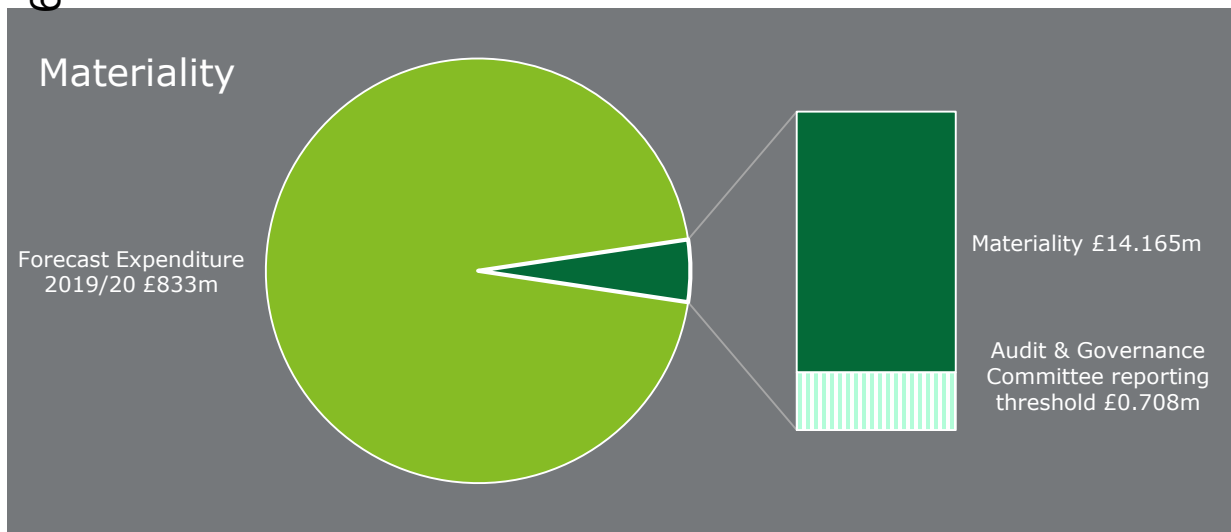
### Basis of our materiality benchmark

- The audit partner has determined materiality as £14.165m, based on professional judgement, the requirement of auditing standards and the financial measures most relevant to users of the financial statements.
- We have used 1.7% of total expenditure based on the Council's 2019/20 forecast expenditure as the benchmark for determining materiality.
- We will re-visit the determined materiality based on completion of interim audit procedures.

### Reporting to those charged with governance

- We will report to you all misstatements found in excess of £0.708m.
- We will report to you misstatements below this threshold if we consider them to be material by nature.

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Although materiality is the judgement of the audit partner, the Audit & Governance Committee must satisfy themselves that the level of materiality chosen is appropriate for the scope of the audit.

# Significant risks

## Our risk assessment process

We consider a number of factors when deciding on the significant audit risks. These factors include:

- the significant risks and uncertainties previously reported in the annual report and financial statements;
- the IAS 1 critical accounting estimates previously reported in the annual report and financial statements;
- our assessment of materiality; and
- the changes that have occurred in the business and the environment it operates in since the last annual report and financial statements.

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### Deloitte view

Management must carefully consider the principal risks, uncertainties and accounting estimates of the Council.

#### Expected principal risk and uncertainties per the former transferred authorities statement of accounts

- Property valuations
- Impairment
- Economic environment
- Demand Led Services
- Funding Settlement
- IT
- Regulatory

#### IAS 1 Critical accounting estimates

- Impairment
- Provisions and contingencies
- Property valuations
- IFRS16






















#### Changes in your business and environment


On the 1 April 2019, Dorset County Council merged with East Dorset, North Dorset, Purbeck, Weymouth & Portland and West Dorset Councils to form Dorset Council.


The next page summarises the significant risks that we will focus on during our audit.


# Significant risks

## Dashboard

Risk	Material	Fraud risk	Planned approach to controls	Level of management judgement	Expected to be included in the Audit Committee report	Slide no.
Predecessor body consolidation and disaggregation			D+I			12
Property valuations			D+I			14
Completeness of accrued expenditure			D+I			15
Valuation of the Council's share of the Pension Fund liability			D+I			16
Management Override of Controls			D+I			17
Value for Money – sustainable resource deployment and working with partners and other third parties.	N/A	N/A	N/A	N/A		18

Low Level of Judgement 

Medium Level of Judgement 

High Level of Judgement 

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

# Significant risks

## Risk 1 – Predecessor body consolidation and disaggregation

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**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.

### **Consolidation**

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.

There is therefore a risk that data transferred and uploaded is not complete or accurate due to the manual process in which this exercise is being completed.

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

### **Disaggregation**

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.

There is a risk that the disaggregation process and resultant rationales for each service area split has not been formally agreed, in addition, there is a risk that the disaggregation assumptions determined may not be the most appropriate. Further there is a risk that the appropriate disaggregation process has not been followed, that the disaggregation calculations are not accurate and that the resultant assets and liabilities are misstated.

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# Significant risks

## Risk 1 – Predecessor body consolidation and disaggregation (continued)

Our response	<b>Consolidation</b>
	We will test the design and implementation of key controls in place around the data upload of the former authorities.
	We will test the completeness and accuracy of data uploaded including the former North Dorset, Purbeck, Weymouth & Portland and West Dorset Councils provision calculations to form the basis of the consolidation schedule for the new Dorset Council by comparing directly to the audited 31 March 2019 data.
	<b>Disaggregation</b>
	We will test the design and implementation of the approval of the disaggregation process and assumptions applied to each service.
	We will test a sample of services to determine whether the agreed disaggregation applied is reasonable and also that it has been applied according to the approved process and rationale and that the resultant calculation is correct.

# Significant risks

## Risk 2 – Property Valuation

<b>Risk identified</b>	<p>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 adopted 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 is expected that all assets will be revalued and for the year ending 31 March 2020 the Council is using two different valuation firms, one firm will audit the former district councils and the other the county councils.</p> <p>The predecessor Council's will have had their own policies on useful asset life's and depreciation and could have issued different instructions to their valuers who in turn may use different assumptions to complete their valuations.</p> <p>Furthermore the Council this year is completing its valuation in January 2020, two months before the year end. Any changes to factors (e.g. build costs) used in the valuation process between January 2020 and March 2020, including any impact of Brexit, could materially affect the value of the Council's assets as at year end.</p> <p>There is therefore a risk that that the value of property assets materially differ from the year end fair value, particularly given that valuations are inherently judgemental and include a number of assumptions.</p>
<b>Our response</b>	<p>We will test the design and implementation of key controls in place around the property valuation and how the Council assures itself that there are no material impairments or changes in value between the date of valuation and the year end;</p> <p>We will review any revaluations performed in the year, assessing whether they have been performed in a reasonable manner, on a timely basis and by suitably qualified individuals;</p> <p>We will use 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;</p> <p>We will consider the adjustments made to harmonise accounting policies for all assets; and</p> <p>We will test a sample of revalued assets and determine whether the movement has been recorded correctly in the accounts.</p>

# Significant risks

## Risk 3 – Completeness of Accrued Expenditure

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<b>Risk identified</b>	<p>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.</p> <p>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.</p> <p>There is therefore a possible risk that the Authority may materially misstate its expenditure through the understatement of accruals in an attempt to report a more favourable year end position.</p>
<b>Our response</b>	<p>Our work in this area will include the following:</p> <p>We will obtain an understanding and test the design and implementation of the key controls in place to ensure the completeness of accruals; and</p> <p>We will perform focused testing in relation to the completeness of accruals through testing of post-year end unprocessed invoices and payments made.</p>

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# Significant risks

## Risk 4 – Valuation of the Council's Pension Fund Liability

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### 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.

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

### Our response

We will obtain an understanding and test the design and implementation of the key controls in place in relation to the review of the assumptions by the Council;

We will evaluate the competency, objectivity and independence of the actuarial specialist;

We will review the methodology and appropriateness of the assumptions used in the valuation, utilising a Deloitte Actuary to provide specialist assessment of the variables used;

We will review the pension related disclosures in respect of actuarial assumptions in the financial accounts for consistency with the Actuary's Report.

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# Significant risks

## Risk 5 – Management Override of Controls

<b>Risk identified</b>	<p>In accordance with ISA 240 (UK and Ireland) 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.</p> <p>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.</p>
<b>Our response</b>	<p>In considering the risk of management override, we plan to perform the following audit procedures that directly address this risk:</p> <p>We will test the design and implementation of key controls in place around journal entries and key management estimates;</p> <p>We will risk assess journals and select items for detailed testing. The journal entries will be selected using computer-assisted profiling based on areas which we consider to be of increased interest;</p> <p>We will review accounting estimates for biases that could result in material misstatements due to fraud; and,</p> <p>We will obtain an understanding of the business rationale of significant transactions that we become aware of that are outside of the normal course of business for the Council, or that otherwise appear to be unusual, given our understanding of the entity and its environment.</p>

# Significant risks

## Risk 6 – Value for Money – CQC and Ofsted concerns regarding sustainable resource deployment and working with partners and other third parties.

<b>Risk identified</b>	<p>In July 2018, Dorset County Council received the findings of an inspection by Ofsted, the Care Quality Commission (CQC), HMI Constabulary and Fire &amp; 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.</p> <p>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.</p> <p>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.</p> <p>As a result, the inspectors have referred the matter to the Department of Education and NHS England for consideration and further action. This may include the Secretary of State using his powers of intervention.</p> <p>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. We therefore issued a modified opinion in respect of this specific matter for the year ended 31 March 2019 and these matters continue to present a significant risk for the year ended 31 March 2020.</p>
<b>Our response</b>	<p>We will liaise with management to discuss progress made in respect of the findings identified;</p> <p>We will review any further Ofsted or CQC reports issued on this matter since March 2019 to the date of our audit report; and</p> <p>We will liaise with internal audit and understand whether they have been able to finalise the following reports Fostering, Children’s Social Care Caseload Management, Effectiveness of Social Care Practice, Readiness for Ofsted Inspection and any other related internal audits.</p>

# Maintaining audit quality

## Responding to challenges in the current audit market

This is a time of intense scrutiny for our profession with questions over the role of auditors, market choice and the provision of non-audit services by an audit firm. We welcome the debate and are engaging fully with all parties who have an interest in the current audit market reform initiatives, so that our profession, our people, our clients and most importantly, the public interest, are served to the highest standards of audit quality and independence.

### The role of audit

- Public confidence in audit has weakened over recent years and the expectation gap has widened with differences between what an audit does and what people think it should do (largely in areas of internal controls, fraud, front half assurance and long term viability)
- Deloitte fully supports an independent review into the role of auditors
- The Government's Brydon Review will consider UK audit standards and how audits should evolve

### Would it be better to have audit only firms?

- Deloitte believes that multidisciplinary firms have more knowledge, greater access to technology and a deeper talent pool. The specialist input from industry, valuation, controls, pensions, cyber, solvency, IT and tax services are critical to an effective audit.
- Our investment in audit innovation, training and technology is greater because of the multidisciplinary model

### Is the current audit market competitive?

- We recognise that the competition for large, complex clients is fierce, but we wholeheartedly support greater choice being available to stakeholders
- There are barriers to entry in the listed market that are significant including the required global reach, unlimited liability, and the high cost of tendering
- The audit profession has engaged with the Competition and Markets Authority with ideas on how to provide greater choice in the market, and responded to the CMA's suggested market remedies

### Independence and conflicts from other services

- Legislation and the FRC's Ethical Standard restrict the services we may provide to audit clients
- Deloitte invests heavily in systems, processes and people to check for potential conflicts
- We have governance in place to assess any areas of potential conflict, including where required to protect the public interest
- Fees for non-audit services to audit clients have fallen since 2008 (17% to 7.3% of firm revenue)

### Deloitte

- Deloitte and Audit Service Line leadership are happy to meet the Board and management of our clients with respect to this important debate. We reaffirm our commitment to quality, independence and upholding the public interest
- Our Impact Report and Transparency Report are available on our website <https://www2.deloitte.com/uk/en/pages/about-deloitte-uk/articles/annual-reports.html>
- Our response to the latest AQR report is on slide 26.

# 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 establish our respective responsibilities in relation to the financial statements audit, to agree our audit plan and to take the opportunity to ask you questions at the planning stage of our audit. Our report includes:

- Our audit plan, including key audit judgements and the planned scope.

### What we don't report

As you will be aware, our audit is 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, the views on internal controls and business risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

### Other relevant communications

We will update you if there are any significant changes to the audit plan.

### Use of this report

This report has been prepared for the Council, 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. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

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

**Deloitte LLP**

Cardiff | January 2020

# Appendices

Page 31

# Fraud responsibilities and representations

## Responsibilities explained



### Your 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.



### Our responsibilities:

- We are required to obtain representations from your management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- 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.
- As set out in the significant risks section of this document, we have identified the risk of fraud in relation to the completeness of expenditure, predecessor body consolidation and disaggregation and management override of controls as key audit risks for your organisation.



### Fraud Characteristics:

- Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
- Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

### We will request the following to be stated in the representation letter signed on behalf of the Board:

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We are not aware of any fraud or suspected fraud / We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity or group and involves:
  - (i) management;
  - (ii) employees who have significant roles in internal control; or
  - (iii) others where the fraud could have a material effect on the financial statements.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

# Fraud responsibilities and representations

## Inquiries

We will make the following inquiries regarding fraud:



### **Management:**

- Management's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments.
- Management's process for identifying and responding to the risks of fraud in the entity.
- Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity.
- Management's communication, if any, to employees regarding its views on business practices and ethical behaviour.
- Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity.
- We plan to involve management from outside the finance function in our inquiries.



### **Internal audit**

- Whether internal audit has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud.



### **Those charged with governance**

- How those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks.
- Whether those charged with governance have knowledge of any actual, suspected or alleged fraud affecting the entity.
- The views of those charged with governance on the most significant fraud risk factors affecting the entity.

# 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 the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of Dorset Council and will reconfirm our independence and objectivity to the Audit & Governance Committee for the year ending 31 March 2020 in our final report to the Audit & Governance Committee.

## Fees

Details of the fees proposed for the period have been presented separately on the next page. There are no non-audit fees.

## Non-audit services

In our opinion there are no inconsistencies between the FRC's Ethical Standard and the Council's approach 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 have not other relationships with the Council, its directors, senior managers and affiliates, and have not supplied any services to other known connected parties.

# Independence and Fees

The professional fees expected to be charged by Deloitte in the period from 1 April 2019 to 31 March 2020 are as follows:

	Current year £'000
Financial statement audit including Whole of Government and procedures in respect of Value for Money assessment	180
<b>Total audit</b>	<b>180</b>
Audit related assurance services	0
Other assurance services	0
<b>Total assurance services</b>	<b>0</b>
<b>Total non-audit services</b>	<b>0</b>
<b>Total fees</b>	<b>180</b>

# Our approach to quality

## AQR team report and findings

We maintain a relentless focus on quality and our quality control procedures and continue to invest in and enhance our Audit Quality Monitoring and Measuring programme. In July 2019 the Financial Reporting Council ("FRC") issued individual reports on each of the seven largest firms, including Deloitte, on Audit Quality Inspections providing a summary of the findings of its Audit Quality Review ("AQR") team for the 2018/19 cycle of reviews.

We greatly value the FRC reviews of our audit engagements and firm wide quality control systems, a key aspect of evaluating our audit quality. We have further transformed our internal review processes including a new focus for reviewing in progress audits, developing our Audit Quality Indicators ('AQI') which are monitored and reported to the firm's executive, and on enhanced remediation procedures.

Whilst we are pleased that overall our quality record, as measured by external inspections, has improved from 76% to 84%, we remain committed to continuous improvement and achieving as a minimum the 90% benchmark across all engagements. We are however, extremely disappointed one engagement received a rating of significant improvements required during the period. This is viewed very seriously within Deloitte and we have worked with the AQR to agree a comprehensive set of swift and significant firm wide actions. We are also pleased to see the impact of our previous actions on impairment, group audits and contingent liability disclosures reflected in the audits under review and there being limited or no findings in those areas. These continue to be a focus in our training, internal coaching and internal review programmes.

We invest continually in our firm wide processes and controls, which we seek to develop globally, to underpin consistency in delivering high quality audits whilst ensuring engagement teams exercise professional scepticism through robust challenge.

All the AQR public reports are available on its website.  
<https://www.frc.org.uk/auditors/audit-quality-review/audit-firm-specific-reports>

### The AQR's 2018/19 Audit Quality Inspection Report on Deloitte LLP

"We assessed 84% of the firm's audits that we reviewed as requiring no more than limited improvements, compared with 76% in 2017/18. Of the FTSE 350 audits we reviewed this year, we assessed 75% as achieving this standard compared with 79% in 2017/18. We note that our inspection results show only modest improvements in audit quality."

"We had no significant findings arising from our firm-wide work on internal quality monitoring, engagement quality control reviews and independence and ethics."

#### **"Our key individual review findings related principally to the need to:**

- Exercise greater professional scepticism in the audit of potential prior year adjustments and related disclosures in the annual report and accounts.
- Strengthen the extent of challenge of key estimates and assumptions in key areas of judgement, including asset valuations and impairment testing.
- Improve the consistency of the quality of the firm's audit of revenue.
- Achieve greater consistency in the audit of provisions and liabilities."

#### **"The firm has enhanced its policies and procedures during the year in a number of areas, including the following:**

- Through the firm's global audit quality programmes, there has been an increased focus on consistency of audit work across the audit practice. For certain account balances, standardised approaches have been adopted, further use has been made of centres of excellence and delivery centres and new technologies embedded into the audit process to support and enable risk assessments, analytical procedures and project management activities.
- Further methodology updates and additional guidance and training for the audit practice covering group audits, accounting estimates, financial services (including the adoption of IFRS 9) provisions and contingencies and the evidencing of quality control procedures (including EQCR) on individual audits.
- Increased support for audit teams throughout the audit cycle including coaching programmes for teams and greater use of diagnostics to monitor progress.
- Continued focus on the approach to the testing of internal controls. The firm provided additional training and support to audit teams adopting a controls-based audit approach, increased focus on reporting to Audit Committees on internal controls and on the wording of auditor's reports."

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Weymouth and Portland Borough Council:  
Objection to the accounts for the year ended  
31 March 2017 relating to LOBO loans

Date of Meeting: 16 January 2020

Portfolio Holder: Cllr Tony Ferrari

Local Member(s): Not applicable

Director: Aidan Dunn, Executive Director Corporate Development

### **Executive Summary:**

An objection to the accounts for the year ended 31 March 2017 was made by a Local Government Elector (LGE) relating to Lender Option Borrower Option (LOBO) loans taken out by Weymouth and Portland Borough Council.

Having considered the objection the external auditors at the time, KPMG, have decided not to issue a public interest report on the grounds that they were satisfied that the LOBO loans were entered into appropriately and reasonably. The decision has been approved by Public Sector Audit Appointments (PSAA), and the final decision was sent by KPMG to the objector on 26 November 2019.

In order to complete the audit process for the 2016-17 and 2017-18 accounts, the letters of management representation have been refreshed and re-signed by the Chief Financial Officer, and KPMG have issued two standalone audit certificates for those accounts.

Finally, there is a requirement to report the fee for this work of £16,478 to those charged with governance, being this committee. The PSAA have confirmed that the fee is in line with their expectation, and the fee has been agreed by Dorset Council.

The summary of the matter produced by KPMG is attached as an appendix to this report.

### **Equalities Impact Assessment:**

This report does not deal with any new strategies or policies that would trigger an impact assessment.

### **Budget:**

There are not any implications for the budget arising from this report.

### **Risk Assessment:**

Current Risk: LOW  
Residual Risk LOW

<b>Climate Implications:</b> None.
<b>Other Implications:</b> None.
<b>Recommendation:</b> That the Audit & Governance Committee notes the report.
<b>Reason for Recommendation:</b> To note the findings of the external auditor, and fee for their work, in order to complete the audit process for Weymouth and Portland Borough Council for 2016-17 and 2017-18.
<b>Appendices:</b> Summary from KPMG: Weymouth and Portland Borough Council: Objection to the accounts for the year ended 31 March 2017 relating to LOBO loans.
<b>Background Papers:</b> None.
<b>Officer Contact:</b> Name: Richard Ironside, Service Manager for Policy and Compliance Tel: 01305 221237 Email: <a href="mailto:richard.ironside@dorsetcouncil.gov.uk">richard.ironside@dorsetcouncil.gov.uk</a>



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**Private & confidential**

Mr A Dunn  
Executive Director Corporate Development  
Dorset Council  
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Our ref jb

Contact Jon Brown

20 December 2019

Dear Aidan

**Weymouth and Portland Borough Council: Objection to the accounts for the year ended 31 March 2017 relating to LOBO loans**

Further to the completion of our work regarding the above objection, I said I would try and summarise the objection and process in order for you to report to 'those charged with governance', i.e. the Audit Committee.

I have set out a brief summary in appendix 1 and 2.

Yours sincerely

Jonathan Brown  
Partner

## **Appendix 1: Summary of objection and conclusion**

### **Weymouth and Portland Borough Council: Objection to the accounts for the year ended 31 March 2017 relating to LOBO loans**

#### **The objection**

An objection to the accounts for the year ended 31 March 2017 was made by a Local Government elector (LGE) in 9 August 2017 relating to Lender Option Borrower Option (“LOBO”) loans taken out by Weymouth and Portland Borough Council (the “Council”) with a total value of £27 million<sup>1</sup>. The objection specifically asked the auditor to issue a public interest report in relation to the LOBO loans taken out by the Council.

Having reviewed the history of the Council’s LOBO loans, the auditor identified that the three original LOBO loans were taken out separately during 2002 and 2003. All three of the LOBO loans were rescheduled in 2006.

#### **Summary of auditor’s decision**

##### *Decision not to issue a public interest report*

The auditor decided not to issue a public interest report on the grounds that he was satisfied that the LOBO loans in question were entered into appropriately and reasonably and:

- that the Council had the statutory power to borrow for the permitted purposes, these powers being so widely drawn that the borrowing by the Council by way of LOBO loans is likely to be lawful and reasonable;
- that the Council took into account all relevant factors including the relevant guidance set out in this decision letter; and
- there is nothing to indicate any lack of prudence in the Council’s actions in entering into the LOBO loans at the time.

#### **Legal background and relevant guidance**

Whilst the powers to borrow are widely drawn, to be lawful any borrowing must nonetheless comply with certain limitations; only be undertaken having had regard to certain matters; be such that a reasonable authority could undertake in the circumstances at the time; and be properly authorised.

These requirements / limitations are guided by two Codes that have been developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) to assist authorities in their decision making, including when they are undertaking borrowing.

- *The Prudential Code for Capital Finance in Local Authorities* (the Prudential Code) is a professional code of practice to support local authorities in taking decisions on capital investments, which the Council is required to have regard to.

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<sup>1</sup> The key details for the loans and the effect of the rescheduling are summarised in appendix 2.

- In carrying out its functions with respect to borrowing, a local authority is required to have regard to CIPFA's code of practice contained in *Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes* (as amended or reissued from time to time) (the "TM Code"). The TM Code states that the local authority should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities.

### **Approach and consideration of lawfulness of LOBO loans**

Given the age of the loans (and the normal deletion policies of local authorities), it was unsurprising that there was limited contemporaneous documentation available setting out the Council's decision making and what was taken into account. As a result, the auditor's approach has been guided by the following.

The auditor considered first whether, on the basis of the information that had been located by the Council, what was known about the prevailing financial and economic circumstances, both nationally and at the Council at the time and taking into account the applicable statutory and Council financial guidance, there was anything to indicate that entering into a long term loan on the LOBO terms would be considered irrational or in some other way outside the Council's powers.

The auditor's view, following detailed consideration and legal advice, is that LOBO loans are not inherently unlawful and borrowing by a local authority under a LOBO loan is capable of being lawful provided the local authority has taken a rational approach in making a decision about any borrowing.

In terms of assessing whether the Council has taken a rational approach in deciding to enter into LOBO loans the auditor needed to consider the circumstances of each case. In particular any borrowing must:

- comply with relevant requirements and guidance;
- be such that a reasonable authority could undertake in the circumstances; and
- be properly authorised.

The Council's Treasury Management reporting was clear that each of the initial LOBO loans (i.e. those commencing in 2002 and 2003) was taken out as part of restructuring its loan portfolio through the redemption of existing Public Works Loans Board loans. The aim of restructuring the LOBO loans in 2006 was to produce revenue savings for the Council (in exchange for the length of the LOBO loans being extended).

The Council's reporting at the time refers to advice being sought from the Council's dedicated Treasury Management Advisor, although details of what advice was sought and obtained specifically relating to LOBO loans is not specified and the evidence is no longer available.

Whilst the lack of contemporaneous documentation is regrettable, the auditor's view was that, on balance, he had sufficient information available from the material

documents; discussions with current Council officers; and formal Council / Committee reporting to enable him to form a judgement on the objection.

### **Summary of considerations**

The auditor considered what would be the relevant factors that would demonstrate whether the Council had entered into LOBO loans rationally and therefore lawfully. These included consideration of the CIPFA Codes referred to above, whether the Council has taken into account all relevant matters, left out of account irrelevant matters and whether the Council had acted reasonably.

Having considered the information available in relation to the relevant factors and the Council's approach, actions and decision making, the auditor did not identify any fundamental departures or significant issues that would, in his view, impact on the lawfulness of the LOBO loans. The auditor's view, based on the information available, that the Council had taken a rational approach in deciding to enter into the LOBO loans (and to undertake the subsequent restructuring) referred to in the objection.

In some areas the documentation was not comprehensive. However, the Council had reported annually its Treasury Management Strategy; Prudential Indicators; and Treasury Management Out-turn which set out compliance with the Prudential Code and Guidance Notes for the earlier financial years and TM Code and Guidance Notes in the later financial years.

There is nothing to indicate that the approach taken by Council officers and the formal reporting to Members was inconsistent with what the auditor would expect to see for a local authority when making its Treasury Management decisions.

The auditor's understanding is that in these circumstances, the Council was and continued to be entitled to proceed on the basis that the loans were entered into lawfully despite the limited contemporaneous documentation evidencing the process and decision making.

## Appendix 2: Details of the Council's LOBO loans

Below is a summary of the terms of the three LOBO loans that the Council has taken out (including rescheduling), which were considered in terms of the objection.

### *Initial loans*

The original loans were taken out in 2002 and 2003 and in summary their terms were:

- LOBO loan taken out from 4 July 2002 with Barclays Bank plc for £10 million. There was an initial fixed period of 18 months with a low initial interest rate of 2.2%, so the lender was not able to exercise their option until 2 January 2004. The interest rate from 2 January 2004 was 5%. The lender is able to exercise their option every 6 months from 2 January 2004. The loan was for 40 years, with a scheduled end date of 2 July 2042.<sup>2</sup>
- LOBO loan taken out from 5 December 2002 with Bayerische Landesbank/Dresdner for £11 million. Initial fixed period of 16 months with a low initial interest rate of 1.8%, so the lender was not able to exercise their option until 6 April 2004. Interest rate from 6 April 2004 was 4.8%. The lender is able to exercise their option every 6 months from 6 April 2004. The loan was for 40 years, with a scheduled end date of 5 December 2042.
- LOBO loan taken out from 27 May 2003 with Dresdner Kleinwort for £6 million. There was an initial fixed period of 1 year with a zero rate initial interest rate, so the lender was not able to exercise their option until 27 May 2004. The interest rate from 27 May 2004 was 4.40%. The lender is able to exercise their option every 6 months from 27 May 2004. The loan was for 40 years, with a scheduled end date of 27 May 2043.

### *Rescheduled loans*

The Council completed a rescheduling exercise in November 2006. This involved all three of the LOBO loans and the following is a summary of the changes made:

- LOBO Loan with Barclays Bank plc for £10 million. The new interest rate was 4.79% (previously 5.00%). The lender remains able to exercise their option every 6 months from 14 May 2007. The length of the loan was extended to 2076.
- LOBO loan with Bayerische Landesbank for £11 million. The new interest rate was 4.59% (previously 4.80%). The lender remains able to exercise their option every 6 months from 14 May 2007. The length of the loan was extended to 2076.<sup>3</sup>

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<sup>2</sup> In 2016, Barclays unilaterally decided to amend all of its LOBO loans with local authorities to fixed interest rate loans, by permanently waiving its 'lender option' to amend the interest rate at given periods.

<sup>3</sup> The LOBO loan was moved to KBC Bank on 8 May 2007, but the terms were unchanged, so this is not considered to be a new or rescheduled LOBO loan in 2007.

- Loan with Dresdner Bank for £6 million. The new interest rate was 4.22% (previously 4.40%). The lender remains able to exercise their option every 6 months from 27 May 2007. The length of the loan was extended to 2066.

The terms of the LOBO loan agreements are similar with regards to the 'option' available to the banks such that every 6 months the bank may exercise its option to increase the interest rate of the LOBO loan. Once the option has been exercised by the bank, the Council can:

- accept the increase (and pay the new increased interest rate for the remaining LOBO loan period, or until the bank exercises its option again); or
- not accept the increase and repay the LOBO loan in full within a specified period (a minimum of two working days from receiving the notification to increase the interest rate).

## Audit and Governance Committee Forward Plan

Date of Meeting	Item	Purpose / Key lines of Enquiry	Lead councillor / officer
<b>Reserve - 11 February 2020</b>			
<b>24 March 2020</b>			
	Financial Report	To receive and scrutinise the latest finance report as presented to Cabinet.	Portfolio Holder – Finance, Commercial & Assets  Lead Officer - Executive Director - Corporate Development S151
	Asset Management & Disposal Governance Arrangements (deferred from 16.01.2020)	To review the Council's emerging asset management and disposal governance arrangements.	Portfolio Holder - Finance, Commercial & Assets  Lead officer - Executive Director - Corporate Development S151 & Executive Director - Place
	Internal Audit 2019/20 Plan Progress Report	To consider progress against the Internal Audit Plan for the 2nd year half - include reporting of/focus upon the highest priority actions identified through the Plan approved by the committee on 17 September 2019.	Portfolio Holder - Leader of the Council  Lead Officer - Corporate Director Legal & Democratic Services Monitoring Officer
	Internal Audit Plan 2020/21 & Internal Audit Charter	To approve the proposed internal audit plan for 2020/21 ( <i>note this will include consideration of whether to adopt a full year plan or to continue with two plans of six months duration as in 2019/20</i> ). The plan brought to	Portfolio Holder - Leader of the Council  Lead Officer - Corporate Director Legal & Democratic Services Monitoring Officer

		the committee for approval will have been discussed with both the Leader and SLT	
	Risk Management update	To review and challenge the Council's corporate risk register, including the effectiveness of the controls identified to bring the level of risk down to an acceptable level.	Portfolio Holder - Leader of the Council  Lead Officer - Service Manager for Assurance
	Annual Audit Update (External Audit)	To receive an update from the council's External Auditor.	External Audit
	Annual Governance Statement	To review and challenge the content of the statutory Annual Governance Statement ahead of its signing by the Leader of the Council and Chief Executive.	Portfolio Holder - Leader of the Council  Lead Officer - Service Manager for Assurance
	Progress with Policy Convergence	To receive a report to consider progress made with policy convergence	Portfolio Holder – Leader of the Council  Lead Officer - Corporate Director -Legal & Democratic Services Monitoring Officer
	Constitutional Changes (if required)	To report to the committee on any changes made to the Constitution under powers delegated to the Monitoring Officer, to seek the views of the committee on any proposed changes requiring full Council approval and to receive an update on the 12 month review of the	Portfolio Holder - Leader of the Council  Lead Officer - Corporate Director -Legal & Democratic Services Monitoring Officer

		Constitution.	
<b>Reserve - 23 April 2020</b>			
<b>10 July 2020</b>			
	Dorset Council Statement of Accounts including Annual Governance Statement	To receive the Statement of Accounts & External Audit report for Dorset Council	Portfolio Holder – Finance, Commercial & Assets  Officer contact – Executive Director – Corporate Development & S151
	Internal Audit Annual Report	To receive the report and note the assurance opinions on the council's risk management, governance and internal control environment for 2019/20	Portfolio Holder – Leader of the Council  Officer contact – Corporate Director – Legal & Democratic Services & Monitoring Officer and Executive Director – Corporate Development & S151
	Internal Audit 2020/21 Plan Progress Report	To receive the report and note the internal audit progress for 2020/21	Portfolio Holder – Leader of the Council  Officer contact – Corporate Director – Legal & Democratic Services & Monitoring Officer and Executive Director – Corporate Development & S151
	Constitutional Changes (if required)	To report to the committee on any changes made to the Constitution under powers delegated to the Monitoring Officer, to seek the views of the committee on any proposed changes requiring full Council approval and to receive an update on the 12 month review of the Constitution. Review of Financial Regulations.	Portfolio Holder - Leader of the Council  Lead Officer - Corporate Director -Legal & Democratic Service Monitoring Officer

<b>10 August 2020</b>			
	Review of People Strategy	To undertake a review of the governance arrangements for the Dorset Council People Strategy	Portfolio Holder – Corporate Development & Change  Officer contact – Corporate Director (HR & OD)
<b>28 September 2020</b>			
	Financial Report Quarter 1 2020/21	To review and scrutinise the Quarter 1 finance report as presented to Cabinet	Portfolio Holder – Finance, Commercial & Assets  Officer contact - Executive Director – Corporate Development & S151
	Treasury Management Annual Report	To receive a Treasury Management update	Portfolio Holder – Finance, Commercial & Assets  Officer contact - Executive Director – Corporate Development & S151
	Internal Audit 2020/21 Plan Progress Report	To receive the report and note the internal audit progress for 2020/21	Portfolio Holder – Leader of the Council  Officer contact – Corporate Director – Legal & Democratic Services & Monitoring Officer and Executive Director – Corporate Dev & S151
	Internal Audit Plan 2020/21 – updated for second half of the year	To receive the Internal Audit Plan updated for the second half of 2020/21	Portfolio Holder – Leader of the Council  Officer contact – Corporate Director – Legal & Democratic Services & Monitoring Officer and Executive Director – Corporate Development & S151
	Risk Management Update	To review and challenge the council's corporate risk register	Portfolio Holder – Leader of the Council

		including the effectiveness of the controls identified to bring down the level of risk to an acceptable level	Officer contact – Service Manager for Assurance
	Constitutional Changes (if required)	To report to the committee on any changes made to the Constitution under powers delegated to the Monitoring Officer, to seek the views of the committee on any proposed changes requiring full Council approval and to receive an update on the 12 month review of the Constitution.	Portfolio Holder - Leader of the Council  Lead Officer - Corporate Director -Legal & Democratic Services Monitoring Officer
<b>16 November 2020</b>			
<b>18 January 2021</b>			
	Financial Report Quarter 2 2020/21	To review and scrutinise the Quarter 2 finance report as presented to Cabinet	Portfolio Holder – Finance, Commercial & Assets  Officer contact - Executive Director – Corporate Development & S151
	Internal Audit 2020/21 Plan Progress Report	To receive the report and note the internal audit progress for 2020/21	Portfolio Holder – Leader of the Council  Officer contact – Corporate Director – Legal & Democratic Services & Monitoring Officer and Executive Director – Corporate Development & S151
	Risk Management Update	To review and challenge the council's corporate risk register including the effectiveness of the controls identified to bring down the level of risk to an acceptable level	Portfolio Holder – Leader of the Council  Officer contact – Service Manager for Assurance

	Constitutional Changes (if required)	To report to the committee on any changes made to the Constitution under powers delegated to the Monitoring Officer, to seek the views of the committee on any proposed changes requiring full Council approval and to receive an update on the 12 month review of the Constitution.	Portfolio Holder - Leader of the Council  Lead Officer - Corporate Director -Legal & Democratic Services Monitoring Officer
<b>22 February 2021</b>			
	Financial Report Quarter 3 2020/21 (Theresa Leavy & Vivienne Broadhurst to attend)	To review and scrutinise the Quarter 3 finance report as presented to Cabinet	Portfolio Holder – Finance, Commercial & Assets  Officer contact - Executive Director – Corporate Development & S151
	Internal Audit 2020/21 Plan Progress Report	To enable the committee to consider progress against the Internal Audit Plan for the second year half. This will include reporting of and a focus upon the highest priority actions identified through the Plan	Portfolio Holder – Leader of the Council  Officer contact – Corporate Director – Legal & Democratic Services & Monitoring Officer and Executive Director – Corporate Development & S151
	Internal Audit Plan 2021/22 & Internal Audit Charter	To approve the proposed internal audit plan for 2021/22. The plan brought to the committee for approval will have been discussed with both the Leader and SLT	Portfolio Holder – Leader of the Council  Officer contact - Corporate Director – Legal & Democratic Services & Monitoring Officer
	Risk Management Update	To review and challenge the council's corporate risk register including the effectiveness of the controls identified to bring down the	Portfolio Holder – Leader of the Council  Officer contact – Service Manager for Assurance

		level of risk to an acceptable level	
	Annual Audit Update (External Audit)	To receive an update from the council's External Auditor	External Audit
	Annual Governance Statement	To review and challenge the content of the statutory Annual Governance Statement ahead of its signing by the Leader of Council and Chief Executive	Portfolio Holder – Leader of the Council  Officer contact - Corporate Director – Legal & Democratic Services & Monitoring Officer
	Constitutional Changes (if required)	To report to the committee on any changes made to the Constitution under powers delegated to the Monitoring Officer, to seek the views of the committee on any proposed changes requiring full Council approval and to receive an update on the 12 month review of the Constitution.	Portfolio Holder - Leader of the Council  Lead Officer - Corporate Director -Legal & Democratic Service Monitoring Officer
<b>19 April 2021</b>			

### Other items raised by Audit and Governance Committee requiring further consideration

Issue	Notes	Date raised
Workforce stress / mental health issues	The committee have raised this as a potential area of work but note that it is linked to current transformation work	At committee on 7 November 2019
How Dorset Council holds and shares information	It is understood that some work is being undertaken in this area.  A councillor workshop on the Dorset	At committee on 7 November 2019

	Council transformation programmes is being held on 10 January 2020. The suggestion is that councillors attend this session and following this, the committee give further consideration to whether any further work is required in this area	
Peer Challenge Report	Chairman requested – Bridget Downton to advise when final report completed.	