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Audit and Governance Committee

Date: Monday, 17 January 2022

Time: 10.00 am

Venue: Virtual meeting

Membership: (Quorum 3)
Matthew Hall (Chairman), Richard Biggs (Vice-Chairman), Susan Cocking, Rod Adkins, Janet Dover, Barry Goringe, Mike Parkes, Bill Pipe, Bill Trite and Jon Orrell

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Chief Executive: Matt Prosser, County Hall, Dorchester, Dorset, DT1 1XJ

For more information about this agenda please contact Democratic Services on susan.dallison@dorsetcouncil.gov.uk

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A G E N D A

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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.

Deloitte External Auditor ISA260 Report - presented by Ian Howse

Deloitte.

Dorset Council

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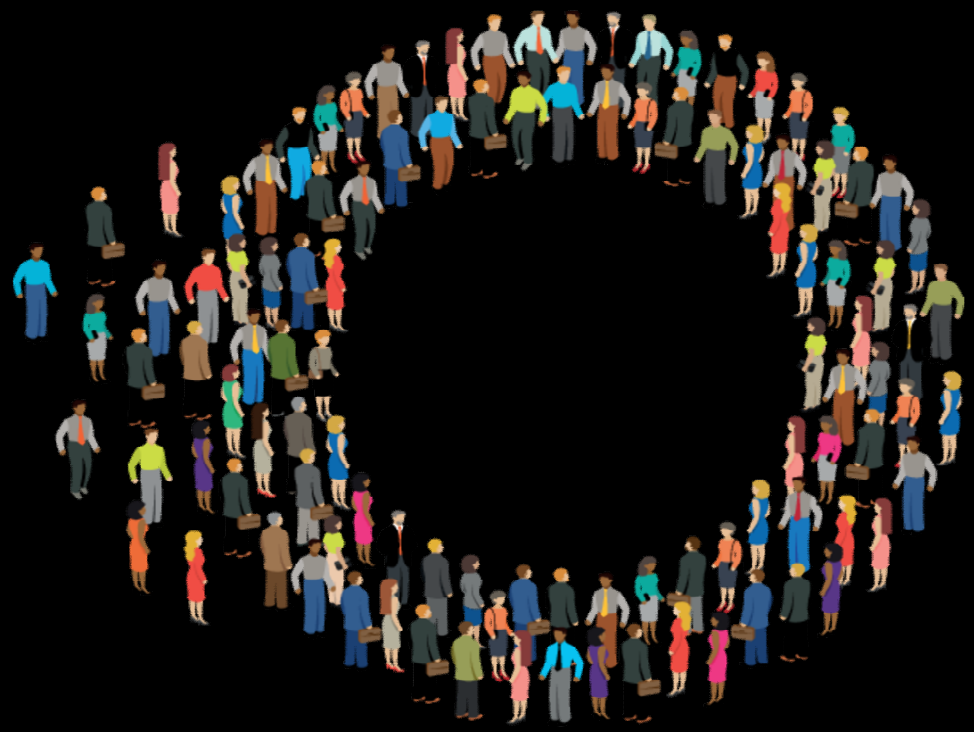

Dorset Council

Report to the Audit and Governance Committee on the 2020/21 audit

Issued on 12 January 2022 for the meeting on 17 January 2022

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01 Final report

02 Appendices

Introduction

The key messages in this report

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.

I have pleasure in presenting our final report to the Audit and Governance Committee for Dorset Council (the Council) for the 2020/21 audit. The scope of our audit was set out within our planning report presented to the Committee in September 2021.

Status of our Statement of Accounts audit	Our audit is substantially complete subject to completion of the following principal matters: • Completion of final reviews and reviews of updated financial statements; • Pension liability work; • Whole of Government Accounts work; • Receipt of signed management representation letter; and • Our review of events since 31 March 2021 through to signing. We will provide an oral update on the status of these matters at the meeting of the Audit and Governance Committee.
Status of our Value for Money audit	Our Value for Money work is on-going, and will be reported before 31 March 2022 in our Auditor's Annual Report, which is within the three month timeframe specified under the National Audit Office Auditor Guidance Note 3. We have not identified to date any risks of significant weakness in arrangements to secure economy, efficiency and effectiveness in the use of resources We have no matters to report by exception in our financial statement audit opinion Our opinion will state that our Value for Money work is on-going.

Introduction

The key messages in this report (continued)

Conclusions from our testing to date	• The key judgements in the audit process related to:
	  • Valuation of property assets;
	  • Completeness of accrued expenditure;
	  • Valuation of the pension scheme liability; and
	  • Recognition of Covid-19 grant income.
	• We have not identified any significant audit adjustments or disclosure deficiencies.
	• We have made some recommendations for improvement to controls from page 20.
	• Based on the current status of our audit work, we envisage issuing an unmodified audit opinion, with no reference to any matters in respect of the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources, or the Annual Governance Statement. The opinion will include an emphasis of matter drawing attention to the material uncertainty in relation to the valuation of the Council's assets raised by the Council's valuer and disclosed in note 57 (i) (b) to the accounts.

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 have no matters to raise with you in respect of the Narrative Report.
Duties as public auditor	• We did not receive any formal queries or objections from local electors this year. We have had some correspondence from a member of the public which we are currently considering. • 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.

Introduction

The key messages in this report (continued)

Whole of Government Accounts	• We are 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). This work is yet to be completed as it is most efficiently done when the accounts audit is complete.
Impact of Covid-19 grants and change in significant risk assessment	• As part of our audit plan, presented to the Audit and Governance Committee in September 2021, we highlighted a need to better understand the impact of the Covid-19 grant funding arrangements at the Council. Following the issuance of the audit plan, we completed a risk assessment of Covid-19 funding streams. This risk assessment highlighted the need for the Council to make significant judgements around the recognition and treatment of Covid-19 grant funding in the 2020/21 financial statements. Given the level of judgement involved, we have decided to treat Covid-19 grant income as a significant audit risk. Further information regarding the work performed and our conclusions on this risk can be viewed on page 9.

Ian Howse
Audit Partner

Responsibilities of the Audit and 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

We use this symbol to highlight areas of our audit where the Audit & Governance Committee needs to focus attention.

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 business model and strategy and, provide advice in respect of the fair, balanced and understandable statement.

Internal controls and risks

- Review the internal control and risk management systems (unless expressly addressed by separate board 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 effectiveness of the internal audit activities.

Whistle-blowing and fraud

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

Our audit explained

We tailor our audit to your organisation and your strategy

Identify changes in your business and environment

In our planning report we identified the key changes in your operations and articulated how these impacted our audit approach.

Scoping

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

Other findings

As well as our conclusions on the significant risks and our Value for Money work, we are required to report to you our observations on the internal control environment as well as any other findings from the audit. These are set out from page 20 of this report.

Determine materiality

When planning our audit we set our materiality at £14.1m based on 1.7% of total expenditure based on the Council's 2020/21 budget.

The figure has been updated based on the 2020/21 draft accounts resulting in a materiality level of £14.8m (PY £14.0m). We report to you in this paper all misstatements above £0.7m (PY £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 as well as on the additional significant risk with respect to Covid-19 grants

Conclude on significant risk areas

We draw to the Audit & Governance Committee's attention our conclusions on the significant audit risks. In particular the Audit & Governance Committee must satisfy themselves that management's judgements are appropriate.

Our audit report

Based on the current status of our audit work, we envisage issuing an unmodified audit report.

Significant Risks and Areas of Audit Focus

Dashboard

Risk	Material	Fraud risk	Approach to controls testing	Controls testing conclusion	Comments	Page no.
Significant risks						
Recognition of COVID-19 grant income	✓	✓	DI	Recommendations raised	Some inconsistency	9
Completeness of accrued expenditure	✓	✓	DI	Satisfactory	Satisfactory	11
Valuation of property assets	✓	✗	DI	Recommendations raised	Some inconsistency	12
Management override of controls	✓	✓	DI	Recommendation raised	Satisfactory	13
Pension liability valuation	✓	✗	DI	Satisfactory	Some inconsistency	15

Controls approach adopted

- DI — Assess design & implementation
- OE — Test operating effectiveness of relevant controls
- S — Involvement of IT specialists

Significant risks

Recognition of Covid-19 grant income

Risk identified	ISA 240 states that when identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks. We have assessed the income streams of the Council, the complexity of the recognition principles and the extent of any estimates used, and concluded that, with the exception of the funding received in 2020/21 in response to the Covid-19 pandemic, there is no significant risk of revenue fraud. During 2020/21, the Council has received additional funding in relation to Covid-19 grants of £303.8m across 55 grants. We have pinpointed the significant risk to the completeness and accuracy of the funding recognised in the Council's financial statements and the completeness and accuracy of the agency arrangement disclosures, where the Council has acted as an agent on behalf of Central Government in administering Covid-19 grants. The key judgements for management are assessing: • Any conditions associated with the Covid-19 grants; and • Whether the Council is acting as a principal or agent in administering the Covid-19 schemes, and how this is subsequently recognised in both the Comprehensive Income and Expenditure Statement and Balance Sheet. The NAO have raised a qualification in relation to Covid-19 income fraud at a Departmental level. It is not yet clear what impact this has for local councils.
Deloitte response and challenge	We have completed the following procedures: • Assessed the design and implementation of the controls in relation to the accounting treatment of all Covid-19 related funding; • We reviewed management's paper on the accounting treatment of each significant grant claim and challenged the appropriateness of the approach adopted; • Tested a sample of funding for Covid-19 grants and confirmed these have been recognised in accordance with any conditions applicable, including appropriate recognition in both the Comprehensive Income and Expenditure Statement and Balance Sheet; and • Considered the adequacy of disclosures in the financial statements, including accounting policies and where relevant critical accounting judgement and key sources of estimation uncertainty disclosures.

Significant risks

Recognition of Covid-19 grant income (continued)

Conclusion	We have raised a control finding in relation to management's accounting paper on this technical accounting treatment. This is control finding 10 on page 25 of this report. We have also identified a trivial misstatement in relation to the treatment of Covid-19 grants for an understatement of grant income by £0.5m and an understatement of grant expenditure by £0.5m. We await the outcomes at a national level on the NAO qualification at a departmental level regarding Covid-19 grants, although it should be noted our audit work in Dorset Council did not identify any indications of fraud. Our final reviews of this work are ongoing.

Significant audit risks (continued)

Completion 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.
Deloitte response and challenge	We have obtained an understanding and tested the design and implementation of the key controls in place to ensure the completeness of accruals. We performed a recalculation of a sample of accruals; and We performed focused testing in relation to the completeness of accruals through testing of post-year end invoices received and payments made.
Conclusion	We have nothing to report in respect of the testing completed in this area to date. Our review of the work on this significant risk is ongoing and we will update the Committee verbally at the meeting.

Significant audit risks (continued)

Valuation of property assets (combines risk 1 and 2 from our plan)

Risk identified	The Council is required to hold property assets within Property, Plant and Equipment at valuation. The valuations are by nature significant estimates which are based on specialist and management assumptions and which can be subject to material changes in value. The Council held £457m of property assets at 31 March 2021, a downward movement of £1.2m, when compared to 31 March 2020. The Council updates the valuation of its properties using a rolling revaluation programme. In 2020/21, it engaged valuers to carry out the following valuation exercise: • Perform a full valuation of other properties due for valuation under the Council's 5 year rolling programme of valuations. The effective date of this valuation was 1 January 2021. The risks identified in the plan related to the possibility of material differences between the market value at 1 January and 31 March and that judgements on the assumptions are not reasonable based on market evidence.
Deloitte response and challenge	We have tested the design and implementation of key controls in place around how the Council assures itself that there are no material impairments or changes in value for the assets not covered by the annual valuation; We have tested the design and implementation of key controls in place to prevent/identify any errors made in processing the valuation accounting entries; We have reviewed and challenged the Council's assessment of whether there have been any material changes at the year end in the values of assets revalued as at 1 January 2021; We have reviewed and challenged the Council's assessment of whether there have been any material changes in the value of assets not revalued in the current year; We have utilised our internal property specialists to support the audit team's assessment as to whether there have been any material changes in property values; We have selected a sample of revalued assets to determine whether the correct accounting entries have been made; We have reviewed the presentation of revaluation movements, and the disclosures included in the Statement of Accounts; and We have tested inputs to the valuation such as gross internal areas.
Conclusion	We have raised a number of control findings (see page 20) to bring to the attention of the Audit and Governance Committee. We have identified an unadjusted misstatement which resulted in an overstatement of the car parks' valuation by £5.6m and a correction for historic impairments which had not been reversed when the increase in valuation was processed which resulted in a misstatement (unadjusted) of £1.7m. There were a number of misstatements below our trivial level which we have aggregated on page 36. Our final reviews are ongoing.

Significant audit risks (continued)

Management override of controls

Risk identified	Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although management is responsible for safeguarding the assets of the Council, we planned our audit so that we had a reasonable expectation of detecting material misstatements to the Statement of Accounts.
Deloitte response and challenge	We have considered the overall sensitivity of judgements made in preparation of the Statement of Accounts, and note that: • The Council's budget reports throughout the year were projecting overspends in operational areas. This was closely monitored and whilst projecting overspends, the underlying reasons were well understood; and • Senior management's remuneration is not tied to particular financial results. We have considered these factors and other potential sensitivities in evaluating the judgements made in the preparation of the financial statements. **Journals** • We have tested the design and implementation of controls in relation to journals. • We have made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. • We have used Spotlight data analytics tools to test a sample of journals, based upon identification of items of potential audit interest. Our analysis has covered all journals posted in the year. **Significant transactions** • We did not identify any significant transactions outside the normal course of business or any transactions where the business rationale was not clear.

Significant audit risks (continued)

Management override of controls

Deloitte response and challenge	**Accounting estimates** • We have performed design and implementation testing of the controls over key accounting estimates and judgements. • The key judgements in the financial statements are those selected as significant audit risks: completeness of accruals, treatment of Covid-19 grants, valuation of the Council's property, and 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. Our procedures included comparing amounts recorded or inputs to estimates to relevant supporting information from third party sources.
Conclusion	We have no matters to bring to the attention of the Audit and Governance Committee, however our final reviews are ongoing.

Significant risks (continued)

Pension liability valuation

Risk identified	The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Dorset Pension Fund, which is part of the Local Government Pension Scheme. The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's Balance Sheet. Per the draft financial statements at 31 March 2021, this totalled £988 million. As a result of this being an estimated balance there is a risk that inappropriate inputs and assumptions are used, which could result in the pension liability valuation being materially misstated.
Deloitte response and challenge	We have completed the following procedures: • We obtained a copy of the actuarial report for the Council produced by Barnett Waddingham, the scheme actuary, and agreed the report to the Statement of Accounts pension disclosures. • We reviewed the disclosures made in the Statement of Accounts against the requirements of the Code. • We liaised with the audit team of Dorset Pension Fund to obtain assurances over the information supplied to the actuary in relation to the Council. • We assessed the independence and expertise of the actuary supporting the basis of reliance upon their work. • We reviewed and challenged the assumptions made by Barnett Waddingham, including benchmarking as shown in the table on the following page. • We assessed the reasonableness of the Council's share of the total assets of the scheme with the Pension Fund financial statements.
Conclusion	Our work in this area is ongoing and we will provide a verbal update on progress to the Audit and Governance Committee.

Significant risks (continued)

Pension Liability Valuation

Review of assumptions used by the actuary

As part of our testing, we reviewed the assumptions used by the actuary and have set out below our assessment of the assumptions used in the IAS19 valuation.

Assumption	Council	Benchmark	Deloitte Assessment
Discount rate (% p.a.)	2.00%	2.00 - 2.25%	
Retail Price Index (RPI) Inflation rate (% p.a.) Breakeven IRP	3.45% 0.25%	3.40-3.55% 0.00-0.30%	
Consumer Price Index (CPI) Inflation rate (% p.a.)	2.80%	2.50-2.90%	
Salary increase (% p.a.) (over RPI inflation)	3.80%	Employer specific	
Pension increase in payment (% p.a.)	2.80%	2.80%	
Pension increase in deferment (% p.a.)	2.80%	2.80%	

Assessment key

- In reasonable range
- Towards limit of reasonable range
- Optimistic or Prudent

Covid-19 pandemic

Impact on reporting and our audit

Impact on annual report and financial statements	
Impact on property, plant and equipment	The Royal Institute of Chartered Surveyors issued a practice alert, as a result of which valuers identified a material valuation uncertainty at 31 March 2020 for most types of property valuation. This practice alert was withdrawn in September 2020. However, the valuer for Dorset Council has continued to include the material uncertainty which is at their discretion and therefore a material uncertainty disclosure is included in the accounts in note 57 1(b). We will reference this material uncertainty disclosure in our opinion.
Impact on pension fund investment measurement	As a result of the Covid-19 pandemic pension fund investments have been subject to volatility. At 31 March 2021, we noted that the Council's share of pension fund assets had moved by £226m.
Expected credit losses	For non-public sector debtors consideration is needed of the impact on the required level of provision for expected credit losses under IFRS 9. The Council has increased its provision from £2.7m of £29.3m of debts at 31 March 2020 (11.1%) to £5.8m of £33.4m (17.3%) at 31 March 2021. This increase is in line with our expectation given the challenges caused by the pandemic.
Narrative and other reporting issues	We have considered how the Council has reflected the impact of the pandemic in its reporting, including: • Narrative Report - discussion of the impact on services, operations, performance, strategic direction, resources and financial sustainability. Ensuring that this reflected the significant financial challenge that the Council has experienced. • Accounts disclosures on the impact on judgements and estimation uncertainty.
Events after the reporting period	We have not identified any events after the reporting date which impact the accounts to the date of issuing this report. We will revisit this up to the date of signing.

Value for money

Our work is on-going and will be reported in our Auditor's Annual Report

Value for Money requirements

We are required to consider the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources. Under the revised requirements of the Code of Audit Practice 2020 and related Auditor Guidance Note 03 ('AGN03'), we are required to:

- Perform work to understand the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources against each of the three reporting criteria (financial sustainability, governance, and improving economy, efficiency and effectiveness);
- Undertake a risk assessment to identify whether there are any risks of significant weaknesses in arrangements;
- If any risks of significant weaknesses are identified, perform procedures to determine whether there is in fact a significant weakness in arrangements, and if so to make recommendations for improvement;
- Issue a narrative commentary in the Auditor's Annual Report, setting out the work undertaken in respect of the reporting criteria and our findings, including any explanation needed in respect of judgements or local context for findings. If significant weaknesses are identified, the weaknesses and recommendations will be included in the reporting, together with follow-up of previous recommendations and whether they have been implemented. Where relevant, we may include reporting on any other matters arising we consider relevant to Value for Money arrangements, which might include emerging risks or issues arising; and
- Where significant weaknesses are identified, report this by exception within our financial statement audit opinion.

Status of our work

Our Value for Money work is on-going, and will be reported before 31 March 2022 in our Auditor's Annual Report, which is within the three month timeframe specified under the National Audit Office Auditor Guidance Note 3.

The principal areas of work remaining are follow-up interviews to support our VfM commentary.

Value for money (continued)

We have not identified any significant weaknesses to date

Work performed to obtain an understanding of the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources

As part of our risk assessment, we have reviewed the summary of Value for Money arrangements prepared by the Council, reviewed supporting documentation on arrangements.

In addition, we have:

- reviewed of the Council's draft Annual Governance Statement;
- reviewed internal audit reports through the year and the Head of Internal Audit Opinion
- considered issues identified through our other audit and assurance work;
- considered the Council's financial performance and management throughout 2020/21; and
- The latest OFSTED Report and other correspondence from regulators.

We have also obtained an understanding of:

- The changes in governance processes as a result of Covid-19; and
- The changes to control processes as a result of Covid-19 including the impact on the Council's budget.

Specific areas we have considered in our work include the Council's ongoing response to issues raised by regulators in previous years relating to Children's services, which led to a qualification of our VFM opinion in 2019/20.

Findings of our work to date

We have not identified to date any risks of significant weakness in arrangements to secure economy, efficiency and effectiveness in the use of resources. We have noted sufficient progress in addressing the issues in Children's Services raised by regulators to remove the qualification on the Council's arrangements which we raised in 2019/20.

We have no matters to report by exception in our financial statement audit opinion.

Our opinion will state that work is on-going and we will provide our final view on the Council's arrangements in our Auditor's Annual Report which we expect to issue by 31 March 2022.

Your control environment and findings

Control deficiencies and areas for management focus

	Observation	Year first communicated	Deloitte recommendation	Management response and remediation plan
Property Valuations/PPE				
1	**Additions provided for internal valuation/impairment review out of date.** The Council's Operational Asset Surveyor was provided a listing of additions to consider as part of their review of the movement in asset values for assets not valued in year. The information provided related to additions made in 2019/20 and not 2020/21. The correction had no impact on the impairment review overall.	2021	It is recommended that up to date information should be provided to inform asset valuations and reviews of asset values.	Future processes will ensure that the Assets & Property and Finance teams have information on additions for future property asset valuations. There will be version control of detail for 2021/22, with the process overseen by the Service Manager Finance (Corporate).
	Consistency of property references. From our testing of the valuer's report through to the accounting entries posted, we have identified that the references used by the property team (UPRN), who provided information to the valuer, do not directly correspond to the references of the assets within the general ledger. As such in some instances assets did not map through into the general ledger, in others one asset UPRN relates to multiple assets in the general ledger and conversely multiple asset UPRNS mapped to single assets in the general ledger.	2021	Each asset should have a single consistent reference that clearly identifies which asset ties through the information held within the property systems and the general ledger.	A reconciliation of property asset records held in the Assets & Property and Finance teams is being worked through for 2021/22 closedown, referencing a consistent Unique Property Reference Number (UPRN) for each property asset. Service Manager Finance (Corporate)
3	**PPE Note reconciliation and review.** The lack of the above control has resulted in disclosure misstatements in the PPE note	2021	The PPE Note should be clearly reconciled to the underlying information, such as the asset history sheet from the ledger, the PFI asset listing, and leased asset listing. The reconciliation should then be reviewed by a more senior member of the finance team.	Process will be reviewed and updated for 2021/22 accounts, e.g. links to reports extracted from SAP. Service Manager Finance (Corporate)

Your control environment and findings (continued)

Control deficiencies and areas for management focus

	Observation	Year first communicated	Deloitte recommendation	Management response and remediation plan
4	**Coordination between Dorset Council's finance and property team.** Throughout our work over revaluations, we identified that there were several instances where the coordination and communication between the finance and property teams was lacking, resulting in assets selected for revaluation by the property team that did not require valuation as they were not held on the balance sheet at the date of revaluation: • Tudor Arcade - catering and retail - this asset has been leased out on a finance lease since 1986 and as such is not included as a property asset on the Council's balance sheet requiring revaluation but rather appropriately accounted for as a lease receivable decreasing over the period of the 127 year lease. • Ferrett Green public conveniences - this asset was transferred to the town Council as part of the aggregation/disaggregation in 2019 and had been appropriately removed from the Council's asset listing in the financial system.	2021	Increased coordination between finance (capital accountant) and property to ensure the assets valued are appropriate.	Data from legacy systems for predecessor councils is being brought together into a single consolidated property asset database, which should improve this position. Service Manager, Asset Management
5	**Revaluation entries in the general ledger are not reconciled.** We have identified several instances where revaluation entries have been calculated by Dorset Council but have then not been posted to the general ledger - e.g. upwards revaluations reversing historic impairments on buildings and one instance where entries were missed. The impact of this is £1.7m unadjusted under-statement of property valuations.	2021	It is recommended that the Council reconcile revaluation entries in the general ledger.	Noted. Management will ensure reconciliation of valuations into the general ledger is carried out as from closing the 2021/22 accounts Service Manager Finance (Corporate)

Your control environment and findings (continued)

Control deficiencies and areas for management focus

	Observation	Year first communicated	Deloitte recommendation	Management response and remediation plan
6	**Farm Asset Valuations posted at the wrong date.** The farm asset valuations have been posted as at 01/04/2020 rather than the 31/03/2021. This has resulted in PPE being understated at year end, depreciation charges on farm assets being misstated (overstated), and the revaluation reserve for these assets being understated. Though these misstatements are not material, there is a clear disconnect from the work undertaken by the internal valuer and the accounting entries posted into the general ledger. The error has arisen due to the valuation information provided by the internal valuer being unclear and the template not having been updated. The most recent values are under the header "AV 2020" with other columns such as "increase 01/04/19 - 01/04/20". These should all have been updated to clarify when the valuations take place. We confirmed as part of our DRE assessment of the valuations that the values in the report are as at 31/03/2021. The errors are included in the aggregation of below trivial misstatements shown on page 36.	2021	Information produced by the internal valuer should be clearer. There should be increased communication and cooperation between property services and finance in preparing and completing the valuations. The valuation should be posted into the ledger effective at the date the properties have been valued.	Noted, one off error. Processes updated to avoid happening again in future. Service Manager Finance (Corporate)

Your control environment and findings (continued)

Control deficiencies and areas for management focus

	Observation	Year first communicated	Deloitte recommendation	Management response and remediation plan
7	**Reconciliation of revaluation entries back to the external valuer's report.** We identified that in 2020/21 the key contact with the valuers was the Operational Asset Surveyor. On receipt of the valuation report the Operational Asset Surveyor prepared a working paper documenting the valuations of the assets and removing the assets which had not been valued (e.g. where the valuation of one asset covered both assets stated such as North Quay - offices and car park). The Capital Accountant prepared the revaluation workings and accounting entries from the working paper and information provided by the Operational Asset Surveyor. These entries were not reconciled back to the original valuation report and information from the external valuers. As a result one asset was overstated as it was assumed that part of the asset had not been valued and was retained at its prior year valuation. This resulted in an unadjusted error of £588k.	2021	It is recommended that the Council reconciles revaluation entries back to the external valuer's report.	Finance and Assets & Property teams will work more closely together to improve, cross check and validate the valuation report, with better version control as part of revised processes. Service Manager Finance (Corporate)

Your control environment and findings (continued)

Control deficiencies and areas for management focus

	Observation	Year first communicated	Deloitte recommendation	Management response and remediation plan
Debtors				
8	**Historic debt has not been written off.** We identified one sample where a housing invoice was raised and due for payment in 2017. The debt had been provided for in full. We enquired as to why the debt was not written off and were informed by the Housing Finance team that there was insufficient staff available to write off debt. We identified a total of £3.7m of debt that became due between 2005 and 2019. These have been fully provided for but have not been written off. The total value is below materiality and a significant proportion are trivial amounts relating to service users owing the local authority for services obtained.	2021	It is recommended that the Council undertakes a tidy up exercise of the receivables balance to identify and write off historic debt where income is not expected to be received.	This was a one off. The write off process continues to be operational and is driven by Services. A review will be undertaken following the completion of a SWAP audit during financial year 2022/23 to clear historic debt. Service Manager Finance (Corporate)
9	**Provision for Bad Debt Account Codes.** We identified three account codes related to provision for bad debt. Two of these accounts relate to debt from legacy ex-district councils and the third relates to the provision for housing benefit overpayments. From our discussions with the client, we identified that the balances in the three account codes are likely, or will have already been included in the main bad debt provision code. Therefore, the balances in the three account codes have the effect of overstating the bad debt provision balance in the balance sheet by £62k which is below our trivial level.	2021	It is recommended that the Council undertakes a housekeeping exercise to clear these balances.	See point 8 above. A review of historic debt used in the bad debt provision will be completed during financial year 2022/23. Service Manager Finance (Corporate)

Your control environment and findings (continued)

Control deficiencies and areas for management focus

	Observation	Year first communicated	Deloitte recommendation	Management response and remediation plan
Income and Expenditure				
10	**Covid-19 Grant Treatment.** We identified that the Council's working paper does not sufficiently detail why they decided to treat each grant as either agent or principal by reference to the CIPFA Code or IFRS. Per our discussion with management, we understand that they have consulted with other local authorities and have followed their approaches for consistency. However, we do not consider this to be sufficient explanation to support why they have decided to treat the grant as them acting as principal or agent.	2021	That the Council documents clearly against the relevant standards why they have adopted their approach.	A number of covid grants were received during year. Formal guidance on accounting treatment wasn't received from Deloitte when queried as other external auditors provided advice in this area. A working paper was provided so advice to be sought from Deloitte on the information they require. Head of Strategic Finance
11	**Internal Recharges Misclassification.** From our testing of expenditure in the Place directorate, we tested two transactions totalling £284.6k that were internal recharges which had not been correctly classified as such. This resulted in the Place directorate gross expenditure to be overstated. Management identified that both these errors were posted by the same individual, with the error likely arising due to a lack of understanding, following legacy processes and insufficient oversight.	2021	Appropriate training and guidance should be implemented to ensure that individuals are able to post accurately into the general ledger. Suitable oversight should be in place to monitor and determine if individuals are adequately trained to be given access to post journals. Journal review controls should be improved as this was not picked up although both journals posted exceeded the £50k threshold for journal review.	Noted. Guidance will be reissued to aim to prevent future occurrence. Service Manager Finance (Corporate)

Your control environment and findings (continued)

Control deficiencies and areas for management focus

	Observation	Year first communicated	Deloitte recommendation	Management response and remediation plan
Provisions				
12	**NNDR Appeals Provision methodology.** Methodology for calculating the NNDR Appeals Provision relies on historic factors known as buoyancy factors, but these are not necessarily still relevant as some date back to 2012/13. We have assessed the provision using benchmarks and analysis of appeals concluded and are satisfied that there is not a material misstatement in this provision which was qualified in some of the districts before re-organisation and for Dorset Council in 2019/20.	2020	The Council should continue to re-assess the NNDR provision and ideally it should be based on the outcomes of decided cases.	The Council currently assess the NNDR provision on regular basis and decides on the provision to make in the accounts on annual basis. A detailed working paper was prepared and provided on 21st May 2021. Head of Strategic Finance.
Journals				
13	**Journal review process for over £50k postings allows for self-review.** During the year one transaction had been signed as reviewed by the same individual who created the posting.	2021	Allocate a person to maintain and perform a review of the over £50k review logs to ensure there have been no instances of self-authorisation.	Occurred before procedure changed as from October ’21, further improvement will be sought 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. Head of Strategic Finance

Your control environment and findings (continued)

Control deficiencies and areas for management focus

	Observation	Year first communicated	Deloitte recommendation	Management response and remediation plan
IT				
14	**IT - SAP User Administration Weaknesses.** We have identified deficiencies in the following user administration controls: Movers: Information about movers is communicated by line managers or movers themselves. For completeness, information should flow from HR. Leavers: Leaver reports are run for users two weeks in the past. This can increase the risk of inappropriate users having access to the system as leavers are not actioned in a timely manner. User Access Review: No user access reviews are performed on the application. The risk is that there could be users with inappropriate access to the system.	2021	The Council should review its access controls to SAP to improve the controls over user access.	The council's choice to managing workforce changes is that it is the manager's responsibility for notifying HR and ICT of changes (not the movers). These are currently separate process activities, though are signposted. Head of Strategic Finance
15	**IT - SAP Change Management.** Five users have access to both develop and import transports presenting a segregation of duties conflict. The risk here is that users may develop changes and import their own changes into production without appropriate approvals. Our testing showed that no developer keys had actually been used in the period.	2021	The Council should strengthen its change management controls to improve the segregation of duties.	Generally transports are not promoted into Prod by the person who created the transport and this is monitored through our monthly monitor reports. We will revisit the 5 users and our process, but this access has been granted either for the development/testing of reports or for emergency changes when there isn't anybody else that can promote the transport, but as mentioned this is monitored through our monthly audit checks.

Your control environment and findings (continued)

Control deficiencies and areas for management focus

	Observation	Year first communicated	Deloitte recommendation	Management response and remediation plan
16	**IT - SAP Change Management.** Inspection of the SE06 system status confirmed that it is set to 'modifiable'. SCC4 Cross client setting in non-production clients is open for changes in three non-production clients. The risk of SE06 system status being set to 'modifiable' is that the system has been left open for changes to be made directly into production since 06/03/2021. SCC4 Cross-client change settings for non-production clients were assessed and it was noted that: -2/3 non-production client system settings are set to 'Changes to Repository and cross-client customizing Allowed'. -1/3 non-production client system settings are set to 'No changes to cross-client customizing objects' These settings are inappropriate as there is a risk that changes made in non-production can be directly promoted to production	2021	The Council should review its SAP configuration settings to prevent direct changes to the production environment outside of the change management process.	SE06 is usually left closed and non-modifiable and only opened on request, in line with SCC4. It was closed as soon as it was identified that set to modified.
17	**IT - SAP Change Management.** Development access granted in production environment. 29 users have this access of which six have developer keys. The risk here is that unauthorised changes can be developed in the production environment.	2021	The Council should review the users with development access to SAP.	We will revisit our process for non-production environments, however, access is contained to our team and subject matter experts control changes in their own areas.

Your control environment and findings (continued)

Control deficiencies and areas for management focus

	Observation	Year first communicated	Deloitte recommendation	Management response and remediation plan
18	**IT - Privileged Access.** 105 users were noted to have privileged access to the SAP database, 103 of which had 'sysadmin' access to the database. The risk here is that a high number of users have privileged access which allows them to perform functions in the system beyond their job responsibilities. Authenticated accounts do not enforce Windows password policies or expiration policies.	2021	The Council should review and significantly reduce the number of users with privileged access.	We will need more info on what the users are and what role they have...We thought we removed this access from the last audit, but it may be this is picking up different access that could be related to something else that we need to review.
19	**IT – Disaster Recovery.** The IT Disaster Recovery procedures at Council have not been tested in the last year.	2021	The Council should regularly test its disaster recovery procedures and update them for any lessons learned.	It has not been practical to test the ICT service continuity arrangements at Dorset Council in the two years since convergence. The Council's infrastructure is now converged, and attention is being given to ensuring regular and effective continuity testing takes place from this year. The Council is also engaged with the Local Government Associate to develop their Cyber 360 'peer challenge' approach, which will likely involve a continuity exercise within the next 3 months.

Other significant findings

Liaison 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. From this work, we observe that the programme of planned work was significantly impacted as the staff from internal audit supported the Council in managing the pandemic. Albeit some detailed work was undertaken particularly in respect of Children's services.

In response to the significant risks identified, no reliance was placed on the work of internal audit and we performed all work ourselves.

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 noted.

Other matters relevant to financial reporting:

No other matters relating to financial reporting, however we are currently considering correspondence from a member of the public which may impact on the issue of the audit certificate.

Significant matters discussed with management:

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

We will obtain written representations from the S151 Officer and 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.

Our audit report

The form and content of our report

Here we discuss how the results of the audit impact on our audit report. An overview of our financial statement audit work will be included in our Auditor's Annual Report.

Our opinion on the financial statements

We expect our opinion on the financial statements to be unmodified.

Emphasis of matter and other matter paragraphs

We believe the material uncertainty disclosed in note 57 (I) (b) in relation to the valuation of the Council's assets is of fundamental importance in the financial statements and we consider it necessary to draw attention to this in an emphasis of matter paragraph.

There are no matters relevant to users' understanding of the audit that we consider necessary to communicate in an other matter paragraph.

Value for Money reporting by exception

Our opinion will note that our Value for Money work is on-going and will be reported in our Auditor's Annual Report.

We have no matters to date to report by exception in our financial statement audit opinion.

Irregularities and fraud

We will explain the extent to which we considered the audit to be capable of detecting irregularities, including fraud.

In doing so, we will describe the procedures we performed in understanding the legal and regulatory framework and assessing compliance with relevant laws and regulations. We will discuss the areas identified where fraud may occur and any identified key audit matters relating to fraud.

Recent changes to ISAs (UK) mean this requirement will apply to **all** entities for periods commencing on or after 15 December 2019

Your annual report

We are required to report by exception on any issues identified in respect of the 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; and • Basis of preparation	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. No issues have been noted from our reviews to date.
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. No issues were noted from our reviews to date.

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 (UK) 260 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.

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.

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.

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 Audit and Governance Committee.

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.

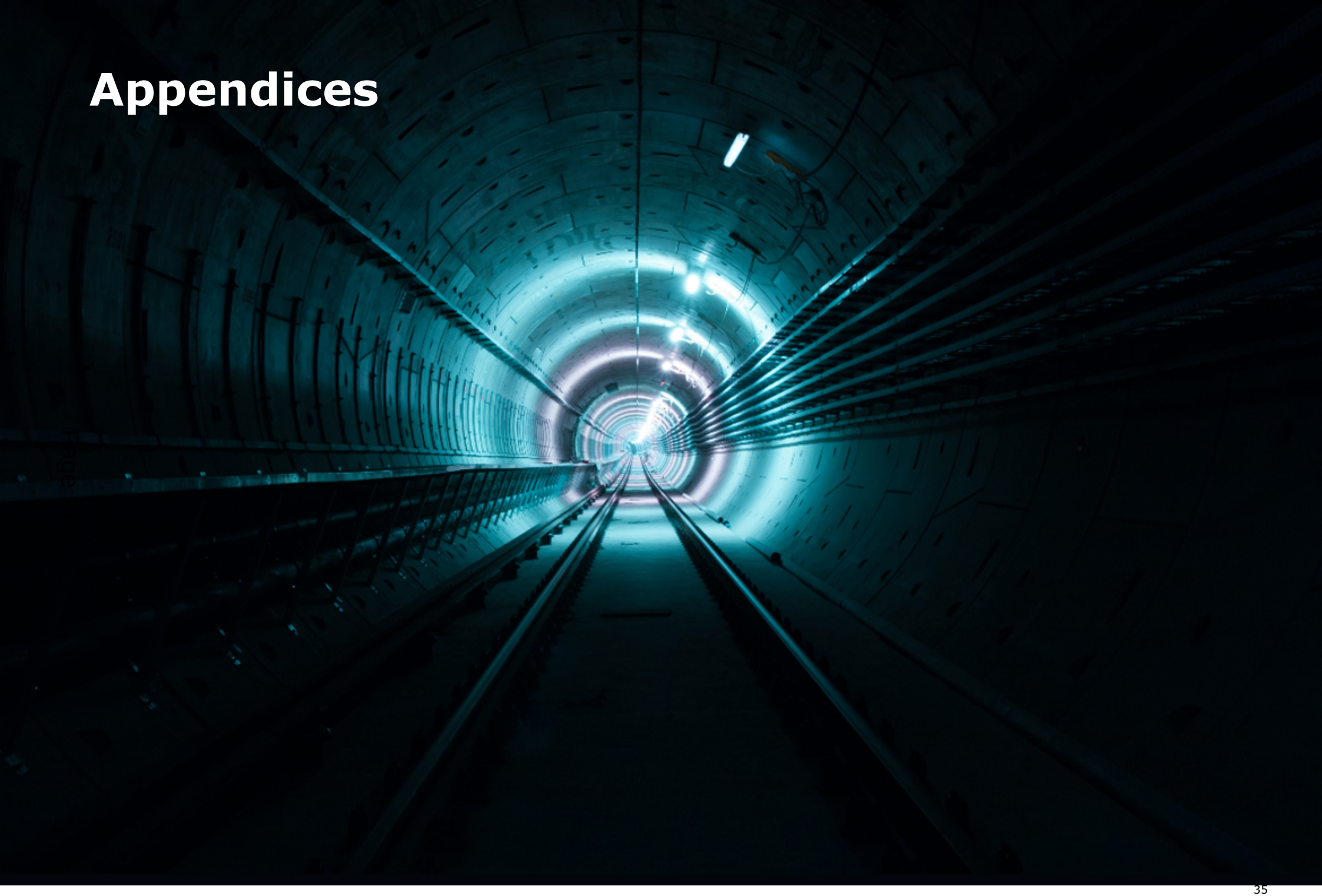
Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and work under the Code of Audit Practice in respect of Value for Money arrangements.

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

Deloitte LLP

Cardiff | 11 January 2022

Appendices



Audit adjustments

Unadjusted misstatements

The following uncorrected misstatements have been identified up to the date of this report which we request that you ask management to correct as required by ISAs (UK). Uncorrected misstatements increase the CIES by £0.6 million, decrease net assets by £8.7 million and decrease equity by £9.3 million.

		Debit/ (credit) income statement £m	Debit/ (credit) in net assets £m	Debit/ (credit) OCI/Equity £m	If applicable, control deficiency identified
Misstatements identified in current year					
Valuations - Overstatement of revalued car parks	[1]		(5.6)	5.6	
Valuations - Reversal of historic impairments not posted	[2]		1.7	(1.7)	Page 20
Pension Liability - Goodwin ruling	[3]		(4.5)	4.5	
Aggregation of misstatements individually < £0.7m		(0.6)	(0.3)	0.9	
Total		**(0.6)**	**(8.7)**	**9.3**	

[1] The car park valuations undertaken by NPS relied on net income which did not include additional operating costs including management and staff costs. Applying these across the 30 car park assets valued decreased the valuation by £5.6m.

[2] The upwards valuation of building assets revalued in year which would reverse historic impairments charged to those assets was not posted into the ledger resulting those assets being understated by £1.7m.

[3] Our pension specialists have estimated the impact of the Goodwin Case which could be in the order of 0.2% of the defined benefit obligation. This is approximately £4.5m and is not considered to be material.

Audit adjustments (continued)

Disclosures

Disclosure misstatements corrected

The following disclosure misstatements identified through the course of the audit have been corrected in the final version of the financial statements.

Disclosure
The minimum lease receipts for operating leases - property, within Note 12 - Leases, was overstated by £840k when compared to the Council's schedule of leases. The schedule of leases shows total minimum lease receipts of £69.6m whereas the original note presented this figure as £70.4m.
The original PPE note prepared by the Council was not in line with the requirements of the CIPFA code and has been removed. The remaining PPE notes follows the suggested presentation within the CIPFA guidance notes.
On testing the minimum lease receipts, we identified that the Council caps the calculation of future lease receipts to 125 years. This only applies to leases that exceed this length, including the perpetual leases that the Council has granted. For the disclosure this is reasonable given that without capping the length this would significantly increase the value of lease receipts expiring after more than five years and would be misleading to the reader of the accounts. The disclosure has been corrected to note this policy and practice of the Council.

Disclosure misstatements uncorrected

The following uncorrected disclosure misstatements have been identified up to the date of this report which we request that you ask management to correct as required by ISAs (UK).

Disclosure
Contingent assets disclosure overstatement On inspection of the calculations for the contingent asset disclosure we identified that one figure had been incorrectly treated as a contribution per dwelling, rather than as a one-off contribution per the S106 agreement. The contingent assets note of £90m is therefore overstated by £2.0m.
AUC negative additions On inspection of the fixed assets additions listing, we identified £9.4m of negative additions had been processed through AUC to effectively clear out the "Wimborne First Replacement" assets from AUC. There was a corresponding positive addition within Land and Buildings for an equivalently named "Wimborne First - Host" asset. This has arisen as the new Wimborne First school was brought into use in June 2020. The correct entries would have been to transfer the asset between AUC and L&B. The net effect for PPE and each of the asset categories is nil, but the £9.6m movement through additions is incorrect. AUC additions understated by £9.6m other movements overstated by £9.6m Other Land and buildings additions overstated by £9.6m and other movements understated by £9.6m.

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 the Council and our objectivity is not compromised.
Fees	Details of proposed fees for audit and non-audit services performed for the period have been presented separately on the following page
Non-audit services	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. We have not carried out any non-audit services other than assurance of the Teachers Pension Agency claim certification.

Independence and fees (continued)

The professional fees expected to be charged by Deloitte for the period from 1 April 2020 to 31 March 2021 are as follows:

	2020/21 Audit £	2019/20 Audit £
Code audit fee - Council	180,000	180,000
Code audit fee – Pension Fund	21,123	21,123
Total audit	**201,123**	**201,123**
Teachers Pensions certification fees	4,000	4,000
Total assurance services	**4,000**	**4,000**
Total fees	**205,123**	**205,123**

Fee Variations

The fees noted above do not reflect the impact of the additional procedures we have been required to perform as a result of the Covid-19 pandemic/the additional VFM procedures, in order to allow us to conclude on the financial statements opinion and VFM opinion in year. We will agree a fee variation with management after the completion of the audit in relation to these areas and report this back to the Audit and Governance Committee for comment.

Our approach to quality

AQR team report and findings

Executing high quality audits remains our number one priority. We are committed to our critical public interest role and continue to embed our culture of quality and excellence into all of our people. This includes using new technology and tools to continue to transform our audit approach.

In July 2021 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 2020/21 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.

In that context, overall FRC inspection results, showing an improvement since last year from 76% to 79% of all inspections assessed as good or needing limited improvement, reflect the progress we are making. The overall profile of our ICAEW inspections and our internal inspection programme also show a similar overall improvement since last year.

The results for the inspections of FTSE 350 entities fell short of our overall scores, reflecting specific findings on those particular audits rather than issues pervasive across other audits. Our objective continues to be for all of our audits to be assessed as good or needing limited improvement and we know we still have work to do in order to meet this standard.

We agree with and accept the FRC's findings on the individual inspections. The FRC has recognised improvements following the actions and programmes for previous years and we welcome the good practice points raised, including in respect of impairment and revenue where individual findings continue to occur.

Overall, we are pleased that there have been no significant findings over our firm wide processes and controls over the last three inspection cycles in the areas subject to rotational review by the FRC. However, we are continually enhancing our processes and controls across our business and such changes will directly or indirectly affect audit quality.

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

Our approach to quality (continued)

AQR team report and findings

The AQR's 2020/21 Audit Quality Inspection Report on Deloitte LLP

"We reviewed 19 individual audits this year and assessed 15 (79%) as requiring no more than limited improvements. Of the 11 FTSE 350 audits we reviewed this year, we assessed eight (73%) as achieving this standard".

"Our key findings related primarily to the need to:

- Improve the evaluation and challenge of management's key assumptions of impairment assessments of goodwill and other assets.
- Enhance the consistency of group audit teams' oversight of component audit teams.
- Strengthen the effectiveness and consistency of the testing of revenue."

"The firm has taken steps to address the key findings in our 2019/20 public report, with actions that included increasing the extent of consultations, and enhanced learning, coaching and support programmes.

We have identified improvements, for example, in the extent of challenge of management by audit teams in respect of the estimates used for model testing. This was identified as a key finding last year.

We also identified good practice in a number of areas of the audits we reviewed (including robust procedures relating to going concern and evidence to support the challenge of management in areas of key judgement) and in the firm-wide procedures (including establishing a centre of excellence focused on credit for banking audits to encourage the consistent application of the firm's methodology and guidance)."

Our approach to quality (continued)

AQR team report and findings

Improve the evaluation and challenge of management's key assumptions of impairment assessments of goodwill and other assets

How we have addressed this area as a firm

To address this finding, we have done, or plan, the following:

- We refreshed our Impairment Centre of Excellence ("COE") to establish clear partner leadership and introduced frequent communication touchpoints to share best practice, hot topics and technical updates.
- We performed a risk focused strategic allocation of impairment specialists for a selection of December 2020 audit engagements, taking into account industry knowledge and experience. Going forward we will seek to involve the EQCR partner to determine whether the allocated specialist should have industry knowledge or whether generalist knowledge would provide an enhanced independent challenge to an industry focused engagement team.
- We will update our impairment guidance notes and consultation document to include specific risk criteria which require further discussion with a panel of specialists, including, but not limited to, where the audit team develop their own model or where cashflow forecasts extend beyond a commonly used period.
- The launch of the Digital Blueprint project management tool will assist teams in prioritising their time across all areas of the audit.
- We will hold workshops with our partners and directors to bring to life the common causes that have led to FRC findings and to ensure greater consistency in expectations in respect of the expected depth of review.
- We have introduced a new coaching program to support the development of primary reviewing skills and to identify any reviewing skills gaps which need addressing.
- To respond to the poor quality and untimely preparation of information by the company for audit, we expect, where appropriate, to increase the communication with management and those charged with governance so that there are clearer expectations in respect of the quality of information prepared for audit.
- We have updated our impairment template memo to reflect the most recent inspection findings we will develop additional training materials on hot topics and areas of regulatory focus, for example, guidance to assist in the challenge of cash flow assumptions and cost reduction initiatives.
- We also developed a new template to support teams in auditing accounting estimates in response to the requirements of ISA (UK) 540 revised 'Auditing Accounting Estimates & Related Disclosures'.

How we addressed this area in our audit

- We reviewed and challenged the Council's impairment review in respect of its property assets.

Our other responsibilities explained

Fraud responsibilities and representations

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.

Required representations:

We have asked the Audit and Governance Committee 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 you have disclosed to us all information in relation to fraud or suspected fraud that you are aware of and that affects the Council.

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

Audit work performed:

In our planning we identified the risk of fraud in management override of controls as a significant audit risk. We also identified in fraud risk in relation to the understatement of accruals. During course of our audit, we have had discussions with management, those charged with governance and Internal Audit to identify any additional fraud risks although none were identified in those discussions. However, as explained earlier in this report we have identified an additional fraud risk in the recognition of Covid-19 grant income since we issued the plan.

In addition, we have reviewed management's own documented procedures regarding fraud and error in the financial statements.

We will explain in our audit report how we considered the audit capable of detecting irregularities, including fraud. In doing so, we will describe the procedures we performed in understanding the legal and regulatory framework and assessing compliance with relevant laws and regulations.

Value for Money deadline extension

Letter to the Audit Committee highlighting Value for Money deadline extension

Dear Audit and Governance Committee

The National Audit Office issued guidance to auditors on 16 April 2021 setting out a revised timetable for completion of work on arrangements to secure value for money. This revised timetable reflected the impact of the ongoing pandemic on preparers and auditors of accounts. That guidance, established that the Auditor's Annual Report should be published within three months of the signing of the Audit Opinion. Therefore, as we have not yet issued our audit opinion we have also not issued our Auditor's Annual Report. Under the 2020 Code of Audit Practice, we are required to provide this letter setting out the reasons for the Auditor's Annual Report not being issued by 30 September 2021.

Yours faithfully

Ian Howse

Deloitte.

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