



# Informal Audit and Governance Committee

**Date:** Monday, 21 June 2021  
**Time:** 10.00 am  
**Venue:** A link to the meeting can be found on the front page of the agenda.

**Membership: (Quorum 3)**

Matthew Hall (Chairman), Richard Biggs (Vice-Chairman), Susan Cocking, Rod Adkins, Janet Dover, Barry Goringe, Mike Parkes, Bill Pipe, Clare Sutton and Bill Trite

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

**For more information about this agenda please contact Democratic Services 01305 224202 email [elaine.tibble@dorsetcouncil.gov.uk](mailto:elaine.tibble@dorsetcouncil.gov.uk)**



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In accordance with the decision taken by Full Council on 4 May 2021, this informal meeting will take place virtually. Decisions will be made by the appropriate officer following a 'minded to' decision by members of the committee."

This meeting will be held remotely as an MS Teams Live Event Link Below.

[https://teams.microsoft.com/l/meetup-join/19%3ameeting\\_NDQ5NWFmMzYtZDZmNy00MGVhLWE2ODAtZDgyYjIzYTFiODk2%40thread.v2/0?context=%7b%22Tid%22%3a%220a4edf35-f0d2-4e23-98f6-b0900b4ea1e6%22%2c%22Oid%22%3a%2238918ae4-81f9-4383-8cec-d092ecb77f47%22%2c%22IsBroadcastMeeting%22%3a%22true%7d&btype=a&role=a](https://teams.microsoft.com/l/meetup-join/19%3ameeting_NDQ5NWFmMzYtZDZmNy00MGVhLWE2ODAtZDgyYjIzYTFiODk2%40thread.v2/0?context=%7b%22Tid%22%3a%220a4edf35-f0d2-4e23-98f6-b0900b4ea1e6%22%2c%22Oid%22%3a%2238918ae4-81f9-4383-8cec-d092ecb77f47%22%2c%22IsBroadcastMeeting%22%3a%22true%7d&btype=a&role=a)

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Dorset Council is committed to being open and transparent in the way it carries out its business whenever possible. Anyone can film, audio-record, take photographs, and use social media such as tweeting and blogging to report the meeting when it is open to the

public, so long as they conform to the Protocol for filming and audio recording of public council meetings

# A G E N D A

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## 1 APOLOGIES

To receive any apologies for absence.

## 2 DECLARATIONS OF INTEREST

To disclose any pecuniary, other registrable or personal interest as set out in the adopted Code of Conduct. In making their decision councillors are asked to state the agenda item, the nature of the interest and any action they propose to take as part of their declaration.

If required, further advice should be sought from the Monitoring Officer in advance of the meeting.

## 3 PUBLIC PARTICIPATION

To receive questions or statements on the business of the committee from town and parish councils and members of the public. A person or organisation can ask either 2 questions, or 2 statements or 1 question and 1 statement at each meeting

Questions and statements received in line with the council's rules for public participation will be published as a supplement to the agenda.

[Public Participation Time Rules](#)

**The deadline for submission of the full text of a question or statement is 8.30am on 16 June 2021.** Please submit your questions or statements to:

[democraticservices@dorsetcouncil.gov.uk](mailto:democraticservices@dorsetcouncil.gov.uk)

## 4 ISA 260 REPORT FROM DELOITTE

5 - 44

To receive the audit report from Deloitte and a presentation from officers.

The 2019/20 accounts can be viewed as part of the agenda for the Audit & Governance Committee held in November 2020:

[click here](#)

**5 FORWARD PLAN JULY 2021**

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To receive the Forward Plan.

**6 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.

**7 EXEMPT BUSINESS**

To move the exclusion of the press and the public for the following item in view of the likely disclosure of exempt information within the meaning of paragraph 3 of schedule 12 A to the Local Government Act 1972 (as amended).

The public and the press will be asked to leave the meeting whilst the item of business is considered.

There is no exempt business.



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

Issued on 11 June for the audit committee on 21 June 2021

Deloitte Confidential: Government and Public Services – For Approved External Use Only

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# Introduction

## The key messages in this report

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

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### Status of the audit

Our audit is in progress with the following principal matters still to be completed:

- completion of final reviews and review of updated financial statements
- receipt of signed management representation letter; and
- our review of events since 31 March 2020 through to signing.

We will provide an oral update on the progress of these matters at the meeting of the Audit and Governance Committee.

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### Conclusions from our testing

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At the time of issuing this report we have identified six unadjusted audit misstatements which are not material but are above our reporting threshold of £0.7m. These are in relation to the Pensions Goodwin case, accruals, the overstatement of a property valuation, the understatement of payroll expenditure, the incorrect valuation of a surplus asset and classification errors in the opening balance sheet. Please see page 35 for further detail.

There were some material misstatements in the draft accounts that have now been corrected by management. These adjustments are set out on page 34. We raised a number of recommendations for control improvements as set out on pages 25-32.

Based on the current status of our audit work, we envisage issuing a modified financial audit opinion on the Council's accounts in relation to the provision for appeals on rateable values on the 2010 and 2017 NDR valuation lists and with emphasis of matter paragraphs in relation to the valuation of: the Council's land and buildings; and the underlying pension fund assets.

In relation to the reference to any matters in respect of the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources we intend to issue an except for opinion in respect of Children's Services. Please see pages 16-18 for further detail.

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### 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 and have nothing to report in this respect.
- The Annual Governance Statement complies with the Delivering Good Governance guidance issued by CIPFA/SOLACE.

# Introduction

## The key messages in this report (Continued)

|   |   |
|---|---|
| <b>Duties as public auditor</b>           | <ul style="list-style-type: none"><li>• We received one query from a local elector this year which was a clarification query, this was resolved by Council staff.</li><li>• 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.</li></ul>   |
| <b>Whole of Government Accounts (WGA)</b> | <ul style="list-style-type: none"><li>• This work has not yet been completed as it is dependent on the completion of the accounts audit.</li></ul>  |
| <b>Impact of Covid-19</b><br>Page 8       | <p>The impact of Covid-19 meant that we needed to factor additional considerations into our risk assessment and certain areas of our audit required further work, such as property valuations, pensions, and the going concern assessment. We note that it has also resulted in a material uncertainty being attached to the property valuations produced by the Council's Valuers as well as in relation to the fair value of pension scheme assets. As a result we have referred to this in our opinion as an emphasis of matter in the key audit matters section in relation to property and pension valuations.</p> <p>There are no other significant impacts of Covid-19 on the Council's Accounts and Annual Report identified.</p> <p>Further impact of Covid-19 can be seen on pages 21-22.</p> |

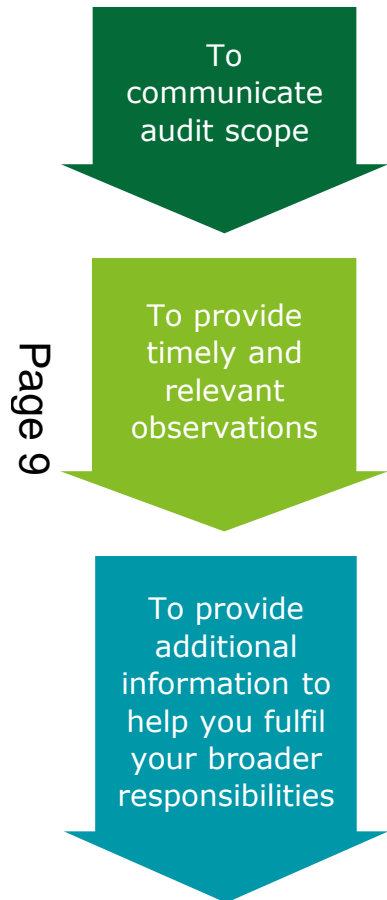
**Ian Howse**  
Lead audit partner



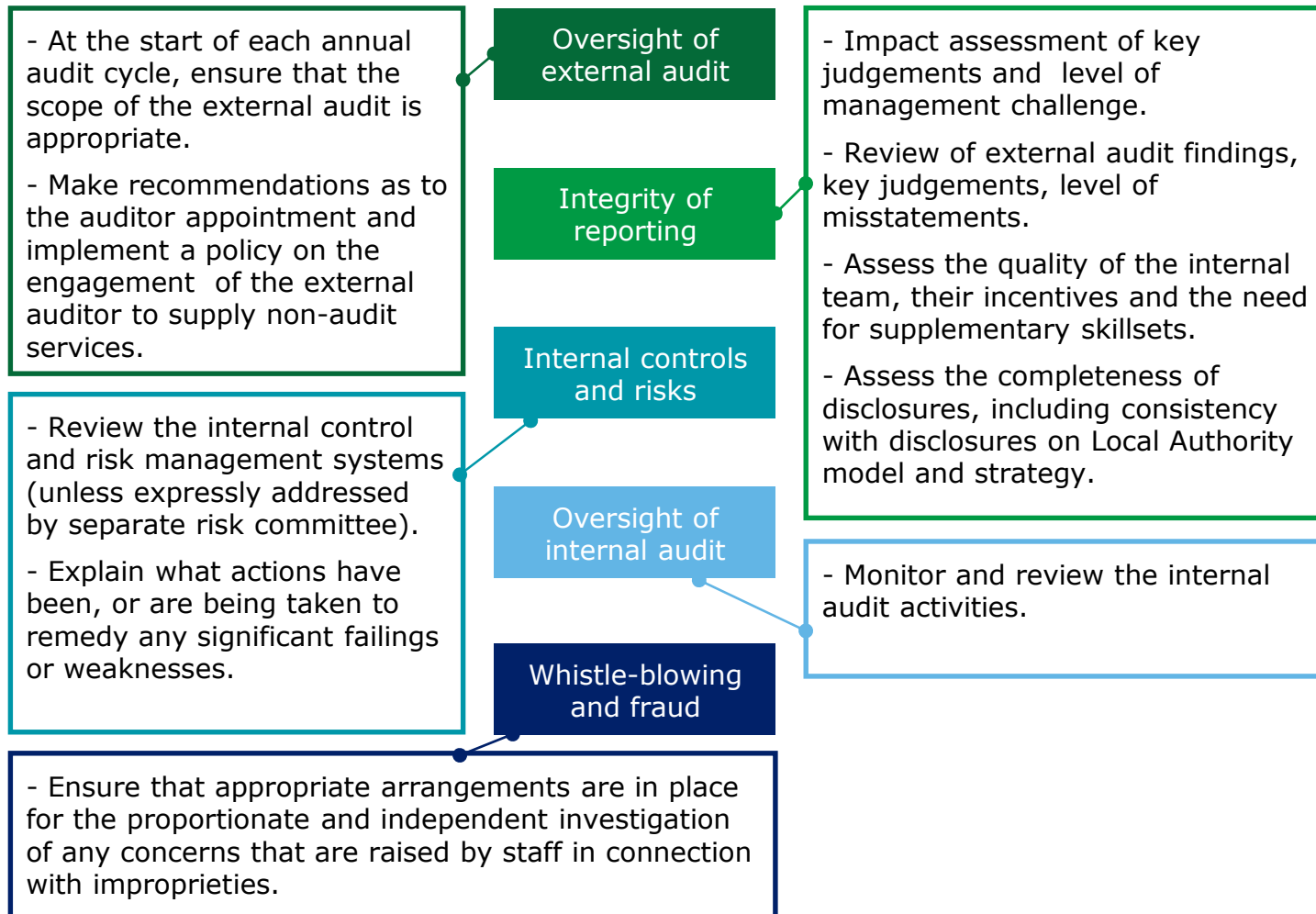
# Responsibilities of the Audit & Governance Committee

## Helping you fulfil your responsibilities

Why do we interact with the Audit & Governance Committee?



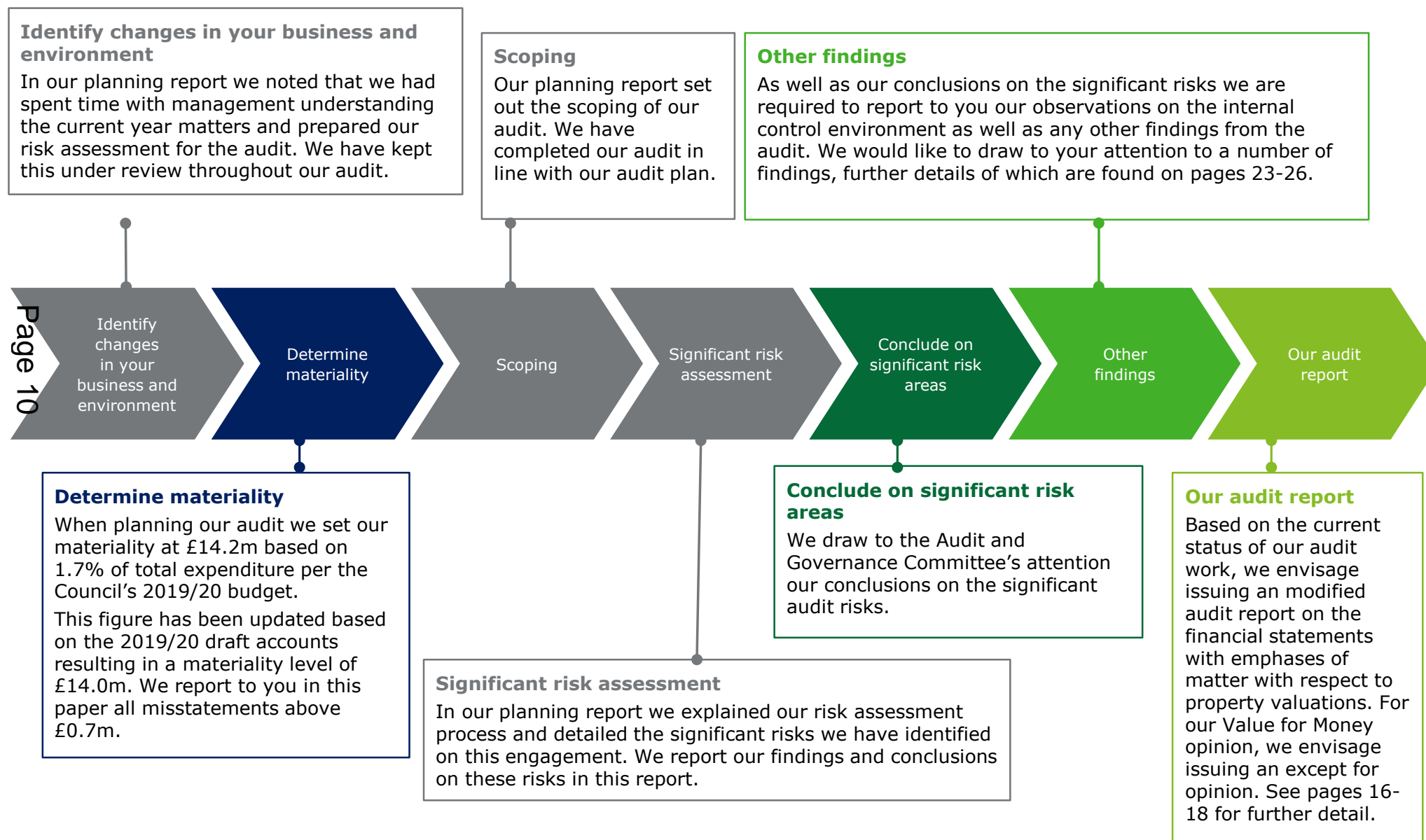
As a result of regulatory change in recent years, the role of the Audit & Governance Committee has significantly expanded. We set out here a summary of the core areas of Audit & Governance Committee responsibility to provide a reference in respect of these broader responsibilities and highlight throughout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



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# Our audit explained

## We tailor our audit to the Council and your strategy



# Significant risks

This dashboard highlights the significant audit risks.

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

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

# Significant risks (continued)

## Predecessor body consolidation and disaggregation

### **Risk identified**

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

### 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.

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

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

### 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.

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

# Significant risks (continued)

## Predecessor body consolidation and disaggregation

### Deloitte response

#### Consolidation

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

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

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

#### Disaggregation

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

We identified that two of our sample do not have available evidence to support the judgement applied. We note that both of these judgements were ultimately approved and signed off by the Oversight Group which ensures that both Dorset and BCP have agreed the balance to be disaggregated.

However, we were unable to evidence and re-perform the calculations to ensure their accuracy. These are in relation to:

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

#### Deloitte conclusion

We noted that the opening Balance Sheet included assets which were transferred to Bournemouth, Christchurch and Poole (BCP) Council which were then removed from the Balances at 31 March 2020. As these assets were not in the control of Dorset Council they should not have been included in the opening Balance Sheet and this has been agreed by management and the adjustment to reduce net assets by £54.8m has been made as shown on page 34 of this report. We also identified £7.986m of assets from East Dorset District Council which were incorrectly re-classified from surplus assets to operational assets and this has been corrected.

# Significant risks (continued)

## Property Valuation

### Risk identified

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

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

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

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

### Deloitte response

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

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

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

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

# Significant risks (continued)

## Property Valuation (continued)

### Deloitte response (continued)

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

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

### Deloitte view

Overall our valuation specialists were satisfied that the valuations completed were completed to a reasonable standard with no fundamental issues. We have identified a disclosure deficiency in relation to the CIPFA code requirement to include an analysis of revalued amounts over each year of the revaluation cycle with a template disclosure provided within the CIPFA code. Given this is the first year of operation of Dorset Council, the reader can deduce that this is the first revaluation cycle but going forward this disclosure will ensure the revaluation cycle is complete, see disclosure deficiency on page 36.

We have identified an unadjusted overstatement of £1.1m in the value of South Walks House as set out on page 35

A number of recommendations have been identified by our valuation specialists which have been shared with management and the internal estates team to improve the valuation process going forward, further detail is included on pages 25-32 where insights are raised.

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

# Significant risks (continued)

## Completeness of Accrued Expenditure

### Risk identified

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

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

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

### Deloitte response

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

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

### Deloitte view

We did not find any evidence of fraud in the accrued expenditure, we have noted some areas where internal control could be improved, including in relation to the general accrual and some capital accruals for work not done until after the year end. See Internal Control recommendation 3 on page 26, recommendation 7 on page 27, recommendation 8 on page 28 and recommendation 17 on page 32.

However, there were no material errors in the accrued expenditure.



# Significant risks (continued)

## Valuation of the Council's Pension Fund Liability

### **Risk identified**

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

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

### **Deloitte response**

We have obtained an understanding and tested the design and implementation of the key controls in place in relation to the review of the assumptions by the Council.

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

We have reviewed the methodology and appropriateness of the assumptions used in the valuation, utilising a Deloitte Actuary to provide specialist assessment of the variables used.

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

### **McCloud Judgment**

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

The former district and County Councils commissioned their actuaries in the prior year to revise its liability assumptions for the LGPS. Within the 2019/20 financial statements a revision been made to the previous allowance for the recent McCloud ruling (following the publication of the Ministry of Housing, Communities and Local Government (MHCLG) as the consultation was completed in July 2020.

# Significant risks (continued)

## Valuation of the Council's Pension Fund Liability (continued)

### Deloitte response (continued)

#### **Goodwin Judgement**

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

Our pension specialists have estimated the impact of the Goodwin Case which could be in the order of 0.2% of the defined benefit obligation which is approximately £3.5m and is not considered to be material. An unadjusted misstatement has been raised, see page 35.

#### **Deloitte view**

We have no issues to report other than the unadjusted misstatement with respect to the impact of the Goodwin case as set out on page 35.

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# Significant risks (continued)

## Management Override of Controls

### **Risk identified**

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

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

### **Deloitte response**

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

### **Journals**

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

### **Estimates**

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

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

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

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

### **Significant transactions**

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

### **Deloitte view**

We identified that during the audit closedown process a total of 64 journals were raised and reviewed by the same individual see insights raised on page 25. We undertook additional sample testing on this journal population and no issues were identified.

As at 31 March 2020 the total NDR appeals provision covering all of the bodies in the collection fund was £31.0m, of this amount Dorset Council's proportion is £15.0m. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of the NDR provision as at 1 April 2019 and 31 March 2020, due to qualifications in the financial statements of the predecessor district Councils in relation to the NDR provisions and a lack of available information from the Valuation Tribunal on the claim success rate to assess the required provision for 2019/20. As a result our opinion is qualified.

In addition, the effect of this would also impact the discussion of financial performance in the narrative statement.

## Significant risks (continued)

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

### **Risk identified**

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

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

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

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

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

## Significant risks (continued)

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

### Deloitte response

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

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

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

## Significant risks (continued)

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

### Deloitte response (continued)

#### Value for Money Opinion

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

#### Deloitte risk assessment

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

#### Deloitte view

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

# Our audit report

## Matters relating to the form and content of our report

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



### **Our opinion on the financial statements**

Our opinion on the financial statements is will be modified. The modification relates to a provision for appeals against the rateable values assessed on the 2010 and 2017 valuations. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of the NDR provision as at 31 March 2020 and 1 April 2019 due to qualifications on the NDR provisions in the 2018/19 financial statements of the former district councils and a lack of available information from the Valuation Tribunal on the appeal success rate to assess the required provision for 2019/20.



### **Material uncertainty related to going concern**

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



### **Emphasis of matter and other matter paragraphs**

There are two matters we judge to be of fundamental importance in the financial statements that we consider it necessary to draw attention to in an emphasis of matter paragraph. These are in relation to property and pension asset valuations requiring a material uncertainty as a result of the unknown impact of Covid-19.



### **Our value for money conclusion**

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money). Our conclusion on the Council's arrangements is an except for conclusion in relation to Children's Services and the related CQC and Ofsted concerns regarding sustainability and working with partners and other third parties.



### **Other reporting responsibilities**

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

# Your annual report

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

|                                    | Requirement   | Deloitte response  |
|------------------------------------|---|--|
| <b>Narrative Report</b>            | <p>The Narrative Report is expected to address (as relevant to the Council):</p> <ul style="list-style-type: none"> <li>- Organisational overview and external environment;</li> <li>- Governance;</li> <li>- Operational Model;</li> <li>- Risks and opportunities;</li> <li>- Strategy and resource allocation;</li> <li>- Performance;</li> <li>- Outlook;</li> <li>- Basis of preparation; and</li> <li>- The impact of Covid-19, see pages 21-22.</li> </ul> | <p>We have assessed whether the Narrative Report has been prepared in accordance with CIPFA guidance.</p> <p>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.</p> <p>Our review identified a number of minor areas where the Narrative Report needed revising in order to comply with guidance and to ensure that they were fair, balanced and understandable, which have been reflected in the final version.</p> <p>We have also noted that the updated narrative report discloses matters related to Covid-19, however, regarding compliance with the guidance and from comparison with other Local Authorities we identified that the disclosures in respect of Covid-19, the disclosures in relation to potential risks and impacts on future funding should be considered in more detail and that these considerations be explicitly stated.</p> |
| <b>Annual Governance Statement</b> | <p>The Annual Governance Statement reports that governance arrangements provide assurance, are adequate and are operating effectively.</p>  | <p>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. We have no matters to report to you in relation to this work.</p>  |



# The Impact of Covid-19

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## Covid-19 pandemic and its impact on our audit.

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

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

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

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| Impact on the Council   | Impact on annual report and financial statements   | Impact on our audit  |
|---|--|--|
| <p>We have considered the key impacts on the business such as:</p> <ul style="list-style-type: none"> <li>• Interruptions to service provision</li> <li>• Unavailability of personnel</li> <li>• Reductions in income</li> <li>• The closure of facilities and premises.</li> </ul> | <p>We have considered the impact of the outbreak on the annual report and financial statements, discussed further on the next page including:</p> <ul style="list-style-type: none"> <li>• Principal risk disclosures</li> <li>• Impact on property, plant and equipment</li> <li>• Impact on pension fund investment measurement and impairment</li> <li>• Financial sustainability assessment</li> <li>• Events after the reporting period and relevant disclosures</li> <li>• Narrative reporting.</li> </ul> | <p>We have considered the impact on the audit including:</p> <ul style="list-style-type: none"> <li>• Resource planning</li> <li>• Timetable of the audit</li> <li>• Impact on our risk assessment</li> <li>• Logistics including meetings with entity personnel and screen sharing where appropriate to perform inspection</li> <li>• Secure online file sharing via Deloitte Connect.</li> </ul> |

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# The Impact of Covid-19

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## Impact on annual report and financial statements

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### Impact on property, plant and equipment

The Royal Institute of Chartered Surveyors has issued a practice alert, as a result of which, valuers have identified a material valuation uncertainty at 31 March 2020 for most types of property valuation. External valuations for the Council has shown that a material uncertainty clause has been included. The Council have disclosed this in the financial statements and this will result in an Emphasis of Matter in our audit report.

### Impact on pension fund asset measurement

As a result of the Covid-19 pandemic pension fund investments have been subject to volatility. It is important to ensure that measurements for the IAS 19 report are updated to the most recent available data as at 31 March 2020. Where Covid-19 has caused such volatility it may mean that the inputs used in the fair value measurement may change and may require a change of measurement technique, and consideration of the level of uncertainty in valuations where there is significantly more estimation. The Council have disclosed this in the financial statements and this will result in an Emphasis of Matter in our audit report.

### Events after the reporting period and relevant disclosures

Local authorities began to see the most substantial impacts of Covid-19 in March 2020 and therefore before the end of the reporting period. The Council will need to consider the events after the reporting period and whether these events will be adjusting or non-adjusting and make decisions on a transaction by transaction basis. The council will need to make significant judgements about these decisions and the nature of the Covid-19 pandemic will mean that they will need to continually review and update these assessments up to the date the accounts are authorised for issue.

### Narrative report

The following areas need to be considered by local authorities as having being impacted on by the Covid-19 pandemic.

- Narrative reporting as well as the usual reporting requirements will need to cover the effects of the pandemic on services, operations, performance, strategic direction, resources, and financial sustainability.
- Reporting judgements and estimation uncertainty, the Council will need to report the impact on material transactions including decisions made on the measurements of assets and liabilities.

We note that the updated narrative report discloses matters related to Covid-19, however, regarding compliance with the guidance and from comparison with other Local Authorities we identified that the disclosures in respect of Covid-19, the disclosures in relation to potential risks and impacts on future funding should be considered in more detail and that these considerations be explicitly stated.

### Covid-19 related income pre year-end

Covid-19 LA Support grant was passed out to Councils by MCHLG on March 27 2020. The first tranche of support for LAs totalled £1.6bn, Dorset Council received £10.6m which is immaterial. This grant was un-ringfenced and without conditions and therefore has been recognised in income with any unspent amounts carried in reserves.

# Purpose of our report and responsibility statement

## Our report is designed to help you meet your governance duties

### What we report

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

Results of our work on key audit judgements and our observations on the quality of your Annual Report.

Our internal control observations.

- Other insights we have identified from our audit.

### What we don't report

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

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

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

### The scope of our work

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

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

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

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

**Ian Howse**  
for and on behalf of Deloitte LLP  
Cardiff  
14 June 2021

# Appendices

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# Other significant findings

## Internal control and risk management

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

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

|         | Observation   | Deloitte recommendation   | Priority | Management Response  |
|---------|---|---|----------|--|
| Page 29 | <b>1 Journals raised and reviewed by the same individual</b><br>We identified in the financial closedown process that 64 journals had been posted where the individual who raised the journal also subsequently reviewed and posted the journal. This involved two separate individuals.  | It is recommended that the Council system enforces all journals and where this may not be possible that the Council's journal review log be checked each month to see if any journals have been raised and reviewed by the same individual. If this has occurred a separate review of that journal should be undertaken and recorded. In addition, we recommend that the journal review log should include the date the journal was posted and the date the journal was reviewed. | High     | Future procedures will include a review by Corporate Finance to ensure that all journals >£50k have been reviewed by an independent person. In all cases for journals >£50k, review will be undertaken in a timely manner, by a suitably responsible officer with appropriate knowledge. |
|         | The journals related to cash and investment items where we are able to rely on third party confirmations to ensure the completeness and accuracy of the posting.  |   |          |  |
|         | Management has informed us that due to staff shortages that this was a one-off to enable accounts closure by the required deadline and that since our finding, the journal has been secondarily reviewed. We were aware of the staff shortage in this department and the explanation is in line with our knowledge of the staff shortage and reporting lines.   |   |          |  |
|         | <b>2 Arrangements to secure economy, efficiency and effectiveness in the use of resources.</b><br>As set out on pages 16 to 18, we have modified our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources due to evidence of weaknesses in proper arrangements for planning, organising, and developing the workforce effectively to deliver strategic priorities and working with third parties effectively to deliver strategic priorities. | We recommend the Council completes the actions required as soon as possible in 2019/20.   | High     | Accepted.  |

# Other significant findings (continued)

## Internal control and risk management

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

# Other significant findings (continued)

## Internal control and risk management

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

# Other significant findings (continued)

## Internal control and risk management

|              | Observation   | Deloitte recommendation  | Priority      | Management Response  |
|--------------|---|--|---------------|--|
| 8<br>Page 32 | <p><b>Notification of accruals</b><br/>We identified from our unrecorded liability testing, specifically in relation to payments processed in 66 days subsequent to 31 March 2020, that eight items related to pre year-end and had not been accounted for, these are below our reporting threshold, however, we note that the costs were not notified to finance until after the Income and Expenditure posting cut-off date. In addition, we identified one of these items related to Adult Services where the invoice was processed initially into another system which interfaced into SAP for the payment to be made and due to the complexity of the work, not all costs are recognised and accrued. Additionally, the interface between the Adult Services system and SAP occurred shortly after the Council internally closed posting to the I&amp;E to allow future processes to commence.</p> | <p>It is recommended that the Council consider extending their income and expenditure cut-off date and also review the date when the Adult Services system interface occurs.</p> | <p>Medium</p> | <p>Team resources for the Accounts Payable (AP) and Accounts Receivable (AR) functions are prepared and organised throughout March and the first week in April to deal with year-end processing. Finance staff e.g. Accountancy and the S2P Hub, and officers from the business such as shoppers, budgets holders and their support teams contribute to achieving these deadlines e.g. orders, good receipting, invoicing, accruals and other year-end adjustments. The majority and most significant transactions are prioritised and dealt with, and remaining transactions are not material. Accountancy and colleagues in the business also have the opportunity to accrue for income and expenditure not captured by the AP and AR processes, including payments and billing processed through feeder systems. This is in support of the faster closing initiative, earlier deadlines in the Accounts and Audit Regulations, and to support forward looking priority activities of the Council on budget planning, transformation and savings. In addition, a general accrual was made in the 19/20 accounts to mitigate against the risk of expenditure that should fall to that year not being accrued for due to timing.</p> |



# Other significant findings (continued)

## Internal control and risk management

|    | Observation  | Deloitte recommendation  | Priority | Management Response  |
|----|--|--|----------|--|
| 9  | <p><b>Effective date of valuations</b><br/>As required by paragraph 4.1.4.3 4) of the Code: The effective date of valuations is to be disclosed whereby the total revalued amount will need to be analysed across each of the preceding financial years where a rolling programme of revaluations has been used. This has not been completed and presented within the statement of accounts for 2019/20.</p>   | It is recommended that this be completed and implemented for the 2020/21 statement of accounts.  | Low      | The accounting policies explain the valuation process. The recommendations will be reviewed by management in preparing the 2020/21 financial statements.   |
| 10 | <p><b>Retention of data relevant to the disaggregation process.</b><br/>Our testing of disaggregation has identified that two of our samples do not have available evidence to support the judgement applied. We note that both of these judgements were ultimately approved and signed off by the Oversight Group which ensures that both Dorset and BCP have agreed the balance to be disaggregated. However we were unable to evidence and re-perform the calculations to ensure their accuracy. These are in relation to:</p> <ul style="list-style-type: none"> <li>£19.7m disaggregated in relation to infrastructure, whereby a 5.6% disaggregation percentage was applied; and</li> <li>£0.04m has been disaggregated for the Commissioning Health Team where the people responsible for the judgements and working papers have since left the Authority.</li> </ul> | It is recommended that data is retained to support all judgements made in the completion of the financial statements. Note: We will include this item as a representation within the Management Representation Letter. | Low      | Comprehensive records have been maintained and provided for balance load of predecessor assets and liabilities, as well as disaggregation for Bournemouth, Christchurch and Poole Council, and for Weymouth Town Council. An agreed method, basis and decision log is available for the disaggregation with BCP Council, as well as a detailed Excel workbook agreed between the finance teams and showing the workings behind disaggregation. The basis of disaggregation results in a percentage ranging from the default 11.7% to something more scientific and relevant to the balance being disaggregated. As context, the net value of disaggregation to BCP was a cash payment to DC in excess of £20m. |

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# Other significant findings (continued)

## Internal control and risk management

| Observation   | Deloitte recommendation   | Priority | Management Response   |
|---|---|----------|---|
| <b>11 Cash Suspense Accounts</b><br>We identified a cash suspense account of £371k as at 31 March 2020 in the cash balance, all suspense account balances should be cleared as part of the year end closedown.  | It is recommended that all suspense accounts are cleared and allocated on a regular and timely basis.   | Low      | Accepted  |
| <b>12 Ex-District Council Bank Accounts</b><br>We identified in the Bank Reconciliations amounts which have been posted to various ex-district council payment codes that largely net off. The amounts in these general ledger codes are to transfer transactions to the correct Dorset Council bank account.   | It is recommended that all former district council accounts are closed and that one general ledger is used for one bank account.  | Medium   | Dorset Council has completed the tender process for banking arrangements to one banking provider and work is being undertaken to reduce the number of bank accounts held. |
| <b>13 Register of Interests for Senior Officers</b><br>We identified that there is no register of interest for Senior Officers in place at the Council. During our testing, we were provided with a log of responses which detailed declarations of interest from Officers. However, we identified that the log was incomplete and did not include declaration of interests or nil declarations from all Senior Officers. | It is recommended that a register of interest is set up for Senior Officers, and that a formal process is implemented within the Council to ensure that interests are recorded and updated regularly. | High     | Accepted to be discussed with Legal and Democratic Services   |
| <b>14 Disposal of Assets</b><br>We identified that the Council does not use standard disposal forms to authorise the disposal of assets. Without the use of disposal forms, there is a risk that assets are misappropriated, and that the sales value for assets being disposed is not properly recorded.   | It is recommended that the Council should create and implement a standard template including a preparer/reviewer signoff and check that assets authorised for disposals are removed from FAR.         | Medium   | Accepted  |

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# Other significant findings (continued)

## Internal control and risk management

| Observation   | Deloitte recommendation  | Priority | Management Response |
|---|--|----------|---------------------|
| <p><b>15 Calculation of Contingent Assets</b><br/>           We identified that the contingent asset balance included amounts already received by the Council, and some incorrectly calculated contributions. The total of items sampled is understated by £0.5m. When extrapolated, there is a risk that the contingent asset balance is misstated by £1.2m.</p> | <p>It is recommended that the calculations for contingent assets are reviewed after preparation to ensure that calculations exclude amounts already received, and that the calculations are correct.</p> | Low      | Accepted            |
| <p><b>16 Impairment Review</b><br/>           The Farms valuation is stated as being at 1 April 2019 so we would expect a documented impairment review to be completed. This wasn't done as the valuation was actually carried out later in the financial year.</p>   | <p>It is recommended that the valuer produces an impairment report for farms in future years.</p>  | Low      | Accepted            |

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# Other significant findings (continued)

## Internal control and risk management

|  | Observation  | Deloitte recommendation | Priority   | Management Response |
|--|--|-------------------------|--|---------------------|
| <b>17 Closing of the Ledger for Posting</b><br>We identified during our testing that the ledger was closed for income and expenditure before all current period income have been collected, especially from adult care service users who use a separate system, therefore causing delays.                  | It is recommended that the Council should delay the closing of the ledger until all costs have been collected especially from other systems across the council.                                    | Low                     | Accepted. This will need to be balanced against the timetable for establishing the accounts. |                     |
| <b>18 Non-Domestic Rates (NDR) Appeals Provision</b><br>We identified during our testing of the appeals provision that Dorset Council inherited working papers from predecessor authorities which have been challenging to follow due to staff turnover.   | It is recommended that the Council sets up working papers going forward which document in detail the justification behind the judgments and estimates used to calculate the NDR appeals provision. | Med                     | A detailed working paper for 2020/21 has been prepared and shared with Deloitte.             |                     |
| <b>19 Calculation of NDR Relief</b><br>We were unable to obtain working papers showing how NDR relief of £3.9m was calculated and were therefore unable to gain assurance over the accuracy and completeness of the value. As the relief is less than materiality, this will not affect the audit opinion. | It is recommended that workings and data used to calculate items in the financial statements are supported by working papers, and that these working papers are retained.                          | High                    | Accepted   |                     |

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# Other significant findings (continued)

## Financial reporting findings

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

### **Qualitative aspects of your accounting practices:**

No issues have been identified.

### **Other matters relevant to financial reporting:**

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

### **Significant matters discussed with management:**

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

### **Interaction with Internal Audit:**

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

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

# Audit adjustments

## Adjusted misstatements

The following misstatements were identified by Deloitte and corrected by management since the last report was issued:

|   |     | Debit/ (credit)<br>CIES<br>£m | Debit/ (credit)<br>in net assets<br>£m | Debit/ (credit)<br>unusable reserves<br>£m | If applicable,<br>control deficiency<br>identified |
|---|-----|-------------------------------|--|--|--|
| <b>As at 1 April 2019</b>                                   |     |                               |  |  |  |
| 1 April 2019 value of Net Assets                            | (1) | ---                           | (54.8)                                 | 54.8                                       | N  |
| 1 April 2019 value of Operational Assets and Surplus Assets | (3) | ---                           | ---                                    | ---  | N  |
| <b>Total</b>  |     | <b>---</b>                    | <b>(54.8)</b>                          | <b>54.8</b>                                |  |
| <b>As at 31 March 2020</b>                                  |     |                               |  |  |  |
| Removal of depreciation charge in CIES                      | (1) | (6.7)                         | 6.7                                    | ---  | N  |
| Debtors   | (2) | ---                           | (99.6)                                 | ---  | N  |
| Creditors   | (2) | ---                           | 114.2                                  | ---  | N  |
| Provisions  | (2) | ---                           | (15.3)                                 | ---  | N  |
| Earmarked Reserves  | (2) | ---                           | 0.7                                    | ---  | N  |
| <b>Total</b>  |     | <b>(6.7)</b>                  | <b>6.7</b>                             | <b>---</b>                                 |  |

- (1) The value of fixed assets disclosed in the draft accounts as at 1 April 2019 included assets which were transferred to BCP, in the accounts these were treated as transferred in the year so this had no impact on the disclosed value at 31 March 2020. This was an isolated methodology issue in the disaggregation so no control finding has been raised.
- (2) An error in the Debtor and Creditor balances was identified in relation to the treatment of collection fund control accounts. This included the incorrect classification of the collection fund provisions which were originally included in creditors.
- (3) Reclassification of opening balances from East Dorset DC from Operational Assets to Surplus Assets £7.986m.

# Audit adjustments

## Unadjusted misstatements

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

|  |     | Debit/ (credit)<br>CIES<br>£m | Debit/ (credit)<br>in net assets<br>£m | Debit/ (credit)<br>reserves<br>£m | If applicable,<br>control deficiency<br>identified |
|--|-----|-------------------------------|--|-----------------------------------|--|
| <b>As at 31 March 2020</b>   |     |                               |  |                                   |  |
| Pension Liability - Goodwin  | (1) | 3.5                           | (3.5)                                  | 3.5                               | N  |
| General Accruals   | (2) | (6.4)                         | 6.4                                    | (6.4)                             | Y  |
| Payroll reconciliation   | (3) | 0.7                           | (0.7)                                  | 0.7                               | Y  |
| Valuation of South Walks House                                     | (4) |                               | (1.1)                                  | 1.1                               | Y  |
| Movement to surplus Assets   | (6) |                               | (2.5)                                  | 2.5                               | N  |
| <b>Total</b>   |     | <b>(2.2)</b>                  | <b>(1.4)</b>                           | <b>1.4</b>                        |  |
| <b>As at 1 April 2019</b>  |     |                               |  |                                   |  |
| Classification between Long and Short Term Debtors and Investments | (5) |                               | (0.0)                                  | (0.0)                             | N  |

- (1) 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 £3.5m and is not considered to be material.
- (2) General accruals – extrapolated error £6.4m, a factual error was identified in our sample testing of £0.7m which related to capital works not yet undertaken, this resulted in an extrapolated error of £4.7m. In addition, we identified a £2.0m 'central accrual' which was posted as a prudent estimate of liabilities not yet captured during the second week of April which was when the ledger was closed. We have deduced that £1.7m of this £2.0m does not relate to any particular liability. An insight has been raised in relation to this, see insight on page 26.
- (3) There are 3 payroll reconciliations and 2 systems, SAP for main Dorset, Resourcelink for former Purbeck and DCP, a cumulative difference between the GL and payroll reports of £737,132 has been identified.
- (4) The Valuation of South Walks House in the Fixed Assets Register was £1.1m more than the value provided by the valuer.
- (5) We identified that the certified financial statements for West Dorset as at 31 March 2019 had a differing amount to that which was uploaded for the 1 April 2019 Balance Sheet comparisons for both Long Term and Short Term Debtors and Investments. This differences were equal and opposite and represented a classification change. This is a timing matter where these were late adjustments and as the differences were not materially different to the data being uploaded by Dorset Council it was determined not to post the adjustment. In detail:
  - (1) Long Term Investments are understated by £4.3m and Short Term Investments are overstated by £4.3m;
  - (2) Long Term Debtors are overstated by £1.3m; and Short term debtors are understated by £1.3m.
- (6) Surplus assets - North Quays Council Office is surplus to the Councils requirements and per the CIPFA code this should be held at fair value under IFRS 13. However, the property was added onto asset register on 1 April 2019 at £3.1m the correction is net of depreciation correction.

# Audit adjustments

## Unadjusted disclosure deficiencies

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

### **Disclosure Deficiencies**

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

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



# Fraud responsibilities and representations

## Responsibilities explained



### Responsibilities:

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



### Required representations:

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

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



### Audit work performed:

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

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

### Concerns:

No concerns identified.

# Independence and fees

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

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

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## Audit and Governance Committee Forward Plan 2021

| Date of Meeting    | Item                             | Purpose / Key lines of Enquiry   | Lead Councillor / Officer   |
|--------------------|----------------------------------|--|---|
| <b>9 July 2021</b> |                                  |  |   |
|                    | SWAP Audit Report SEND Transport | To consider the actions which have and are being taken forward in response to the audit. | Portfolio Holder – Cllr Andrew Parry / Cllr Ray Bryan<br><br>Officer contact – John Sellgren / Matt Piles       |
|                    | Annual Whistle Blowing Report    | Annual Report  | Portfolio Holder – Cllr Spencer Flower<br><br>Officer contact – Marc Eyre                                       |
|                    | Corporate Complaints             | Annual Report  | Portfolio Holder – Cllr Spencer Flower<br><br>Officer contact – Marc Eyre                                       |
|                    | Internal Audit Progress Report   | Progress Report  | Portfolio Holder – Cllr Spencer Flower<br><br>Officer contact-<br>Rupert Bamberger – SWAP<br>Sally White - SWAP |
|                    | Quarterly Risk Management Update | Update Report  | Portfolio Holder – Cllr Spencer Flower<br><br>Officer contact – Marc Eyre                                       |
|                    | Prevent                          | Recommendation from the People & Health Overview Committee                               | Officer contact – Andy Frost – Service Manager for Community Safety   |
|                    | Place Risk Update                | Update Report  | Officer contact – John Sellgren, Executive Director   |
|                    | External Audit Report            |  | Portfolio Holder – Cllr Spencer Flower<br><br>Deloitte – Ian Howse  |

| <b>Date of Meeting</b>   | <b>Item</b>                              | <b>Purpose / Key lines of Enquiry</b> | <b>Lead Councillor/Officer</b>  |
|--------------------------|--|---------------------------------------|---|
| <b>9 August 2021</b>     |  |                                       |   |
|                          |  |                                       |   |
| <b>Date of Meeting</b>   | <b>Item</b>                              | <b>Purpose / Key lines of Enquiry</b> | <b>Lead Councillor/Officer</b>  |
| <b>27 September 2021</b> |  |                                       |   |
|                          | Quarterly Risk Management Update         | Update Report                         | Portfolio Holder – Cllr Spencer Flower<br>Officer contact – Marc Eyre                                       |
|                          | Internal Audit Progress Report           | Progress report                       | Portfolio Holder – Cllr Spencer Flower<br>Officer contact-<br>Rupert Bamberger – SWAP<br>Sally White - SWAP |
|                          | Constitution Changes – Notices Of Motion | Recommendation to Council             | Portfolio Holder – Cllr Spencer Flower<br>Officer contact – Jonathan Mair                                   |
|                          | Value for Money Report                   | Update report                         | Portfolio Holder – Cllr Peter Wharf<br>Officer contact – Bridget Downton & Rebecca Forrester                |

| <b>Date of Meeting</b>  | <b>Item</b>   | <b>Purpose / Key lines of Enquiry</b> | <b>Lead Councillor/Officer</b>  |
|-------------------------|---|---------------------------------------|---|
| <b>15 November 2021</b> |   |                                       |   |
|                         |   |                                       |   |
| <b>Date of Meeting</b>  | <b>Item</b>   | <b>Purpose / Key lines of Enquiry</b> | <b>Lead Councillor/Officer</b>  |
| <b>17 January 2022</b>  |   |                                       |   |
|                         | Quarterly Risk Management Update                              | Update Report                         | Portfolio Holder – Cllr Spencer Flower<br>Officer contact – Marc Eyre                                       |
|                         | Internal Audit Progress Report                                | Progress report                       | Portfolio Holder – Cllr Spencer Flower<br>Officer contact-<br>Rupert Bamberger – SWAP<br>Sally White - SWAP |
| <b>Date of Meeting</b>  | <b>Item</b>   | <b>Purpose / Key lines of Enquiry</b> | <b>Lead Councillor/Officer</b>  |
| <b>21 February 2022</b> |   |                                       |   |
|                         |   |                                       |   |
| <b>Date of Meeting</b>  | <b>Item</b>   | <b>Purpose / Key lines of Enquiry</b> | <b>Lead Councillor/Officer</b>  |
| <b>11 April 2022</b>    |   |                                       |   |
|                         | Quarterly Risk Management Update                              | Update Report                         | Portfolio Holder – Cllr Spencer Flower<br>Officer contact – Marc Eyre                                       |
|                         | Internal Audit Annual Report & Internal Audit Planning Report | Annual Report                         | Portfolio Holder – Cllr Spencer Flower<br>Officer contact-<br>Rupert Bamberger – SWAP<br>Sally White - SWAP |

|  |                             |               |   |
|--|-----------------------------|---------------|---|
|  | Annual Governance Statement | Annual Report | Portfolio Holder – Cllr Spencer Flower<br>Officer contact – Marc Eyre |
|--|-----------------------------|---------------|---|

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

| <b>Issue</b>                                    | <b>Notes</b>  | <b>Date raised</b>                |
|---|---|-----------------------------------|
| 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.<br><br>A councillor workshop on the Dorset 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 | At committee on 7 November 2019   |
| Schedule of debt                                | Jim Mcmanus agreed to produce a schedule of debt and the areas in the Capital Budget funded by borrowing.   | At pre-meeting on 8 February 2021 |