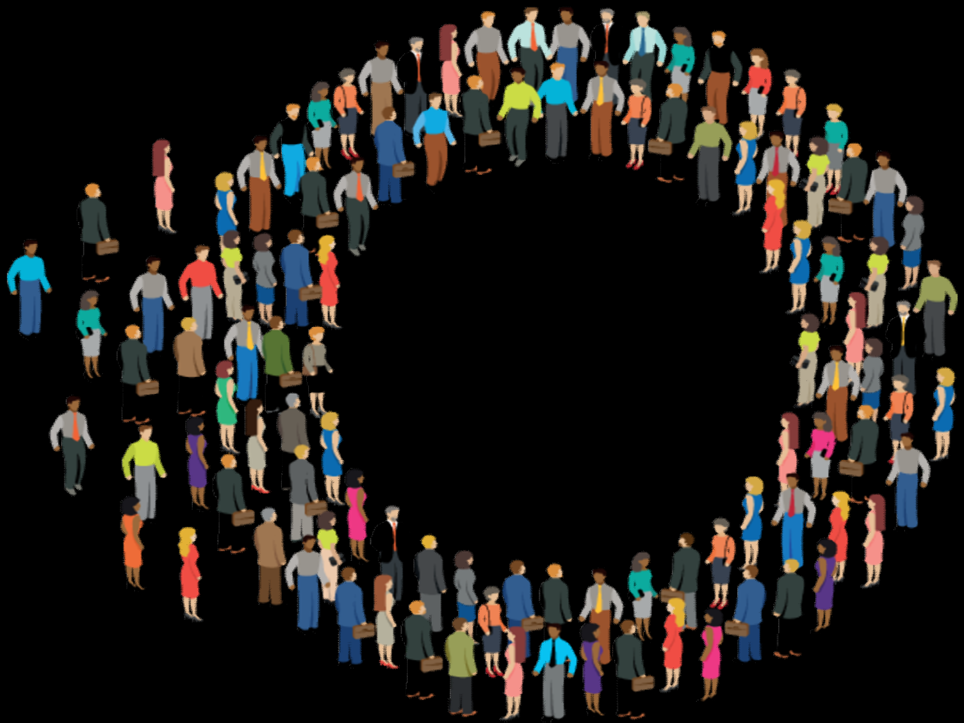

Dorset Council

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

Issued on 7 July 2023 for the meeting on 17 July 2023

Contents

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 updated ISA 260 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: • Infrastructure assets, • Updated disclosure work; • Correction of prior period errors; • Completion of final quality reviews and quality checks and clearance of the points raised, this includes all of the significant risk areas; • Reviews of updated financial statements; • Conclusion of our consultation on the NNDR provision for the current year; • Clarification of the impact on local councils of the NAO qualification in relation to Covid-19 income fraud at a Departmental level. • 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, and will issue a final version of this report when everything is complete.
Status of our Value for Money audit	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 will be completed within three months of the date of the issue of the audit opinion in line with the timeframe specified in the National Audit Office Auditor Guidance note 3.

Introduction

The key messages in this report (continued)

Conclusions from our testing	• 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 made some recommendations for improvement to controls from page 20.
	• Based on the current status of our audit work, we envisage issuing a modified audit opinion, covering the impact of the prior year qualification on the opening balances, 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 also 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 members 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.
Inspection Period	• We identified that when the Council first published their accounts for inspection, they had not included the pension fund accounts. We have obtained legal advice that concluded that the full accounts, including the pension fund accounts, would need to be reopened for an inspection period. The Council has held an inspection period from 27 March to 11 May 2023 to address this.

Ian Howse
Audit Partner

Significant Risks and Areas of Audit Focus

Dashboard

Risk	Material	Fraud risk	Approach to controls testing	Controls testing conclusion	Page no.
Significant risks					
Recognition of COVID-19 grant income	✓	✓	DI	Recommendations raised	7
Completeness of accrued expenditure	✓	✓	DI	Satisfactory	9
Valuation of property assets	✓	✗	DI	Recommendations raised	10
Management override of controls	✓	✓	DI	Recommendation raised	11
Pension liability valuation	✓	✗	DI	Satisfactory	13

Controls approach adopted

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

Significant Risks and Areas of Audit Focus

Dashboard

Risk	Material	Fraud risk	Approach to controls testing	Controls testing conclusion	Comments	Page no.
Areas of Audit Focus						
Infrastructure Assets	✓	✗	NA	NA	Testing ongoing	15

Controls approach adopted

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

Significant audit 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; • We reviewed management's schedule of Covid-19 related grants and compared it to a central list of Covid-19 grants prepared by the Deloitte Local Government team • 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 audit risks (continued)

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 11 on page 26 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. The work in this area is subject to reviews and we will update you on our final conclusions in our final report to the Audit Committee.

Significant audit 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 focussed this risk, on the fraud risk in respect of 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 not found any evidence of fraud or error in the completeness of accrued expenditure and have not raised any control finding, based on the work completed. However, this work is still subject to final reviews. .

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 pages 20 - 24) 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 40. Final reviews of this work 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 identified one journal from our testing that was raised and reviewed by the same individual, see insights raised on page 27. We did not find any evidence of fraud from our testing, however, as with other significant risk areas final reviews are ongoing.

Significant audit 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.
Goodwin Judgement	The Goodwin judgement relates to sex discrimination as a result to changes that were made to pension rights for same sex married couples and relates to a tribunal ruling that was made on the 20th June 2020. For accounting at 31 March 2021, 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 £4.5m and is not considered to be material. An unadjusted misstatement has been raised, see page 40.
Conclusion	The pension fund auditor has informed us of a £24.7m understatement in the pooled investment vehicle balance, of which we have calculated the Council's share of £9.1m. Aside from this and the unadjusted misstatement with respect to the impact of the Goodwin case, which are set out on page 40, we have no issues to report, subject to the completion of final reviews.

Significant audit 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

Areas of Focus

Infrastructure Assets

Risk identified	The following concerns were raised by local authority auditors in relation to the treatment of infrastructure assets in the local authority statement of accounts: • Derecognition of components – concerns were raised that local authorities were not derecognising infrastructure assets after they had been replaced by additions. This was due to the derecognition provisions of the Code being difficult for local authorities to apply for infrastructure assets, as authorities do not have detailed records of infrastructure asset components in place. • Gross book value and accumulated depreciation – as a result of local authorities not disposing of infrastructure asset components when they were replaced, the gross book value and accumulated depreciation balances included in the property, plant and equipment disclosure notes for infrastructure assets are overstated. This is because components that are no longer in use are still included in both balances. • Infrastructure asset disaggregation – concerns were raised that the records held by some local authorities do not sufficiently disaggregate the infrastructure asset balance within the authorities fixed asset register, so as to allow both the authority and auditors, to understand the actual types of infrastructure assets held by the authority. For example, it was noted that a number of authorities nationally include one line entitled “infrastructure assets” in the fixed asset register, with no further information available regarding what is included in the balance. • Useful economic lives – it was identified that authorities often have limited support for the useful economic lives used in relation to infrastructure assets. These issues were all raised with CIPFA and the Department for Levelling Up, Housing and Communities (DLUHC). Following a series of discussions at national technical groups and several consultations that were overseen by CIPFA and DLUHC, the following has now been issued: • Statutory Instrument (SI) – The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022, was laid before Parliament on 30 November 2022 and came into force on 25 December 2022. The main purpose of the statutory instrument is to allow local authorities to make the assumption that any infrastructure asset additions recognised are replacing components that have been fully depreciated. The SI is applicable to all financial years up to 2024/25, where the audit certificate for the authority is still open. • CIPFA Code update – Update to Code and Specifications for Future Codes for Infrastructure Assets – this came into effect on 29 November 2022. The main purpose of the Code update is to remove the requirement for authorities to disclose gross book value and accumulated depreciation balances for infrastructure assets. • CIPFA Bulletin 12 – Accounting for Infrastructure Assets – Temporary Solution – this was released on 11 January 2023. The CIPFA Bulletin aims to provide example disclosures and examples of how both the Statutory Instrument and the Code update impact on the accounting for infrastructure assets.

Areas of Focus (continued)

Infrastructure Assets (continued)

Deloitte response and challenge	**Derecognition of components** • We have made inquiries of management to understand whether they will opt to apply the SI and have made the assumption that the carrying amount of any assets that have been replaced was nil. • We have reviewed the Statement of Accounts for Dorset Council to check the necessary disclosures have been made as advised in the CIPFA Bulletin 12. **Gross Book Value and Accumulated Depreciation** • We have reviewed the Statement of Accounts for Dorset Council to check the necessary disclosures have been made as advised in the CIPFA Bulletin 12. **Infrastructure Asset Disaggregation** • We reviewed and challenged the disaggregation of infrastructure assets in the authority's fixed asset register. **Useful economic lives** • We reviewed and challenged the useful economic lives applied to infrastructure assets by the Authority, considering the guidance set out in the CIPFA Bulletin. • We considered the impact on the in-year depreciation charge of useful economic lives used by the Authority.

Areas of Focus (continued)

Infrastructure Assets (continued)

Conclusion

Derecognition of components

- We confirmed that the Authority has opted to apply the SI and have made the assumption that the carrying amount of any assets that have been replaced was nil.
- We have reviewed the Statement of Accounts for Dorset Council and can confirm that the disclosure has been made.

Gross Book Value and Accumulated Depreciation

- We have reviewed the Statement of Accounts for Dorset Council and can confirm that the disclosure has been made.

Infrastructure Asset Disaggregation

- We identified that of the £423m of infrastructure assets, the Council's FAR disaggregates this into 28 asset lines, plus the PFI asset which is held separately from the FAR. The description of these 28 lines indicated that each of these lines relates to a separate category of infrastructure assets (e.g., Highways – roads, drainage, coastal defences, etc.) but these were not explicit. We challenged the Council to provide clear categorisations for each of the asset lines. The Council provided this for all but 2 asset lines (totalling £743k), these assets having been inherited from the previous district Councils on 1 April 2019 and the underlying records and support to be able to accurately classify these lines was not available

Useful economic lives

We identified the following issues from the procedures performed:

- The UELs previously used by the Council (generally 5% reducing balance method - equivalent to 20 year UEL on the NBV from 1 April 2020) were not supportable. Based on the evidence provided and the UKRLG UEL range, the audit team has assessed an expected UEL for each of the assets and challenged management to review the UELs it is applying. Management have provided an updated consideration of the UELs and their application. This only impacts on 2020/21 as per paragraph 30M.2 of the Statutory Instrument, local authorities are not required to make any prior year adjustment to the statement of accounts in relation to infrastructure asset balances.

Final assessments and reviews are ongoing.

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 in our Auditor's Annual Report, which will be issued within the three month timeframe from the date of signing as specified under the National Audit Office Auditor Guidance Note 3.

The principal areas of work remaining are follow-up interviews to support our Value for Money (VfM) commentary.

Value for money

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.

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).
2	**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 40.	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
8	**The finance function should be involved in determining the assets to be valued** We have noted from our testing that the determination and selection of assets to be valued in 2020/21 was the role of the property team at the Council. From our testing we have identified assets that the Council no longer has control of (Ferrett Green PC), that the Council has leased out on a finance lease (Tudor Arcade), and that are classified as an intangible (Cornhill Stall Market) have all been included in the assets revalued in year. These are all assets which did not require revaluing as part of the revaluation exercise of land and buildings for the financial statements. This has led to significant audit and finance team time spent trying to understand and tie assets from the revaluation report through to revaluation accounting entries.	2021	The finance function/capital accountant should be involved in determining the assets to be valued so that these are relevant and applicable to the exercise undertaken.	Full asset valuation taking place for 2021/22 and work being done to reconcile the information from the property systems and the finance system to enable a consistent view and understanding of the Council's assets.

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				
9	**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)
10	**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 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				
11	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 the Council 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
12	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				
13	**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				
14	**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
Authorisation Deficiency				
15	**Authorisation of Credit Notes** Deloitte identified one credit note from our sample of two tested which has not gone through the appropriate authorisation processes. There have been credit notes totalling £2.9m in 2020/21. This is immaterial and not considered to have a material impact on the financial statements. Therefore, the impact of this internal deficiency is unlikely to result in a material misstatement to the financial statements.	2021	The Council should continue to review their control environment and ensure the appropriate authorization process takes place.	Business areas raise Credit Notes in DES and these will always go to the Credit Control Team for authorisation. There is a possibility that the credit note in question was raised in SAP (limited availability across the authority, mainly limited to financial services) for which the authorisation process can be circumvented.
Invoice and PO Mismatch				
16	**Expenditure Sample Mismatch** The invoice (value of £19,758.20) has been matched to the wrong line of the Purchase Order (matched to £399,788.97, but should have been matched to £19,578.20). We have seen a copy of the journals posted on SAP and the associated double entries, which shows this was reversed out afterwards.	2021	The Council should continue to review their control environment and ensure the appropriate matching takes place.	The Senior Operational Finance Officer has explained this is an isolated error and errors like this are infrequent. Given the value of the mismatch, this has been assessed as not significant.

Your control environment and findings (continued)

Control deficiencies and areas for management focus

	Observation	Year first communicated	Deloitte recommendation	Management response and remediation plan
PFI Accounting				
17	PFI Accounting - Overpayment An overpayment of £3,063k that was picked up in 2018 and has built up since 2007. The control issue is that the overpayment has built from 2007 and was not identified. The reason for the overpayment is because the Council pay SSE for their team to fix lights when an issue occurs (as part of the Streetlighting contract). Dorset Council had received significant, but not material amount of payments back if SSE don't respond within a certain period and this has built up over time.	2021	N/A - As this has been adjusted going forward and more controls are in place to ensure this doesn't happen again	New controls and checks are now in place. (Head of Strategic Finance)
18	Controls around accounting for PFI The reimbursement was due to an adjustment for the accruals and de-accruals on the contract which was incorrect after year 1 of the contract.	2021	N/A - As this has been adjusted going forward and more controls are in place to ensure this doesn't happen again	New controls and checks are now in place. (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
Controls				
19	**Inconsistent frequency of non-trade payment control** The control around monitoring post year-end non-trade payments is not operated consistently, as chaser emails are not sent after every review of the spreadsheet or at defined intervals, instead they are sent once it has been noted that the level of unresponsiveness has increased, or a deadline with the accounts preparation process is impending (e.g. closing down of the ledger). Although we have tested the design and implementation of the control and our sample indicated that the control operated effectively, we noted through inquiry of management that the control is not performed consistently.	2021	Control processes should be defined and carried out on a consistent basis.	This process is now managed through the MS Teams page for closedown, which all relevant finance staff have access to and are notified of messages and posts. Non-trade payment reports are generated and posted by Corporate Finance for payments in the period after the year end date until a deadline determined in the closedown timetable, usually about mid-May.
Capital Grants				
20	**Insufficient audit evidence** Dorset Council entered into an agreement with Park Dean whereby West Dean Camp Site would be used for an annual fee plus a lease premium. However per Dorset Council it was agreed that £1.2m of the £1.5m lease premium would be used for capital improvement works. However we have not been provided with sufficient or appropriate audit evidence. We were provided with an email (from Dorset) which isn't third party.	2021	Capital contributions and grants should be clearly documented and agreed with third parties, and documentation supporting the treatment of capital grants and contributions should be retained.	Dorset Council ensure to keep records relating to capital grants received, and Section 106/CIL agreements which are used for capital financing. The Capital Team at Dorset Council now has considerably more resource and greater oversight of such items. Going forwards, paperwork will be kept in a central folder to assist with any potential future audit queries.

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				
21	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
22	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
23	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.
24	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
25	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.
26	IT – Disaster Recovery. The IT Business and 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.

Significant matters discussed with management:

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

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.

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.

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

Based on our work completed to date our opinion on the financial statements is expected to be modified for the qualification from the prior year which impacts the opening balances.

Emphasis of matter and other matter paragraphs

Our opinion will include an emphasis of matter paragraph 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.

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.

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.
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.

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 | 07/07/2023

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 decrease net assets by £3.5 million and decrease equity by £3.5 million.

		Debit/ (credit) income statement £m	Debit/ (credit) in net assets £m	Debit/ (credit) OCI/Equity £m
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)
No Allowance for Goodwin Ruling	[3]		(4.5)	4.5
Capital grant lease premium	[4]	1.5	(1.5)	
Capital grant income – projected error	[4]	2.0	(2.0)	
Pension asset valuation	[5]		9.1	(9.1)
East Dorset Sundry Debt Provision	[6]		-	
Previous District Council's Infrastructure Assets	[7]		(0.7)	0.7
Total		3.5	(3.5)	0.0

Audit adjustments (continued)

Unadjusted misstatements (continued)

[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] An employment tribunal on 30 June 2020 upheld a legal challenge against the Government in respect of unequitable benefits for male dependents of female members. This should result in an additional liability being recognised. No allowance has been made in relation in the FY21 DBO or the FY20 DBO, for around 0.2% of the DBO, i.e. £4.5m.

[4] The Council recognised £1.5m lease premium as income in 2020/21, with £1.2m recognised as a capital grant. The Council were not able to support the classification of the income as a capital grant, as such it should be treated as lease premium and under IAS 17 recognised as deferred income and released on a straight-line basis over the term of the lease.
We have extrapolated this error over capital grant income where the error was identified to assess the projected error in the total population.

[5] The pension fund auditor has informed us that the Pension Fund pooled investment vehicle balance was understated by £24.7m due to stale pricing. The Council's share of the understatement is £9.1m (37%).

[6] The East Dorset Sundry Debt Provision relates to a debt provision of £1.1m which is externally managed by the Stour Partnership. The Council has not received an update for the provision and are not able to support the figure currently held

[7] On review of the infrastructure assets in the Council's Fixed Asset Register, it was identified that two assets inherited from the previous district councils were not supported by sufficient information to be able to accurately classify what they related to. Given the previous District council's records are not available, the Council is unable to provide a clear understanding of what these assets are and so should be removed from the asset register and the infrastructure asset balance.

Audit adjustments (continued)

Disclosures (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.
The opening CFR for 2020/21 does not agree to the closing 2019/20 figure, due to a difference equivalent to the 2019/20 heritage assets figure. This has correctly been included within this balance in 2020/21. The impact of this misstatement is that the 2020/21 opening CFR is 3,307k (equal to the 2019/20 heritage assets figure) higher than the closing 2019/20 figure.
A discrepancy of £0.7m arises between the outstanding future capital commitments disclosed in the notes and per the contracts evidenced. The difference is due to various additional (non-contracted) costs which are incurred to complete the final project. Per the CIPFA Code, only 'contractual commitments' should be disclosed.

Audit adjustments (continued)

Disclosures (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.
Prior year comparatives for exit packages The original disclosure does not present a prior year comparative for exit packages. There were several high value exit packages in 2019/20 (£986k and £938k) which are not presented as PY comparatives.
Cash flow testing movement From our Statement of Cash Flows Testing the movement for long-term borrowings in the cash flow statement is nil, however actual movement per the balance sheet amounts tested is (£1,034), therefore the cash position for the Council is overstated by £1,034k.
Members Allowances Per the CIPFA code, members allowances should include all members allowances and expenses paid in the year. On reviewing the balance we identified that the £1,634k figure excludes members travel expenses of £6.1k. The allowances figure should be updated to include these expenses.

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

FRC Audit Quality Inspection and Supervision report

We are proud of our people's commitment to delivering high quality audits and we continue to have an uncompromising focus on audit quality. Audit quality is and will remain our number one priority and is the foundation of our recruitment, learning and development, promotion and reward structures.

In July 2022 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 2021/22 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, we are pleased that both the overall and FTSE 350 inspection results for our audits selected by the FRC as part of the 2021/22 inspection cycle show an improvement. 82% of all inspections in the current cycle were assessed as good or needing limited improvement, compared to 79% last year. Of the FTSE 350 audits reviewed, 91% achieved this standard (2020/21: 73%). This reflects our ongoing focus on audit quality, and we will maintain our emphasis on continuous improvement as we seek to further enhance quality.

We welcome the breadth and depth of good practice points identified by the FRC particularly those in respect of the effective challenge of management and group audit oversight, where the FRC also reports findings.

We are also pleased that previous recurring findings relating to goodwill impairment and revenue were not identified as key finding in the current FRC inspection cycle, reflecting the positive impact of actions taken in previous years. We nevertheless remain committed to sustained focus and investment in these areas and more broadly to achieve consistently high quality audits.

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

The AQR's 2021/22 Audit Quality Inspection and Supervision Report on Deloitte LLP

"In the 2021/22 public report, we concluded that the firm had made progress on actions to address our previous findings and made improvements in relation to its audit execution and firm-wide procedures. The firm has continued to show improvement, with an increase in the number of audits we assessed as requiring no more than limited improvements to 82% compared with 79% in the previous year and 80% on average over the past five years. It is also encouraging that none of the audits we inspected were found to require significant improvements.

The area which contributed most to the audits requiring improvement was the audit of estimates of certain provisions. There were also key findings in relation to group audits, the review and challenge by the Engagement Quality Control Review (EQCR) partner and the application of the FRC Ethical Standard."

Our approach to quality

FRC Audit Quality Inspection and Supervision report

Improve the audit of estimates in relation to certain provisions

How we have addressed this area as a firm

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

- Our main annual technical training includes specific training in relation to the audit of complex estimates and provisions and includes scenario examples for auditing management estimates. Our Engagement Team Based Learning ("TechEx Teams") will also include a follow-on session focusing on accounting estimates.
- We plan to develop a checklist, similar to that in place for our banking audits, for auditing Expected Credit Loss ('ECL') models for corporate audit teams to use where there are complex models being deployed by the companies we audit.
- Additional coaching will be provided to improve experience and skills when performing corporate audits which have ECL provisions.
- We continue to hold monthly workshops with our partners and directors to brief them on areas of regulatory focus, including the root cause of issues identified, and raise awareness of the importance of the review process.

Further enhance the consistency of the evaluation by the group audit team of the component auditors' work

How we have addressed this area as a firm

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

- We established a Group Audit coaching programme to support engagement teams in key areas relating to group audits, primarily through sharing of good practice and highlighting common pitfalls. This programme will be expanded for FY22/23 to increase the number of coaches and engagements to be coached ahead of December 2022 year-ends.
- We included a mandatory training module within our main annual training ("TechEx") on Group Audits which focused on effective direction, supervision and review of component auditors. Our Engagement Team Based Learning ("TechEx Teams") will also include a follow-on session focusing on Group Audits.
- We are performing a refresh of our Group Audit practice aid in light of inspection findings to develop a reference point for good practice examples. We also intend to share templates that audit teams can use to evidence the communications held throughout the audit process with component audit teams.
- Monthly workshops are held with partners and directors to brief them on the areas of regulatory focus. We also regularly communicate the FRC findings, including those on group audits to the wider audit practice during the inspection cycle through our Weekly technical email update to ensure that audit teams who might be affected by the findings are fully briefed.

Our approach to quality

FRC Audit Quality Inspection and Supervision report

Strengthen the evidence of review and challenge by the Engagement Quality Control Review partner

How we have addressed this area as a firm

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

- We commenced an EQCR transformation programme in the second half of 2021 designed to build on our existing EQCR practices to further enhance the effectiveness of our EQCR process and improve the evidence retained to demonstrate the EQCR challenge.
- We have made enhancements to our EQCR allocation process and refreshed the onboarding of new EQCR partners, with a new onboarding pack that emphasises the expectations and accountability of the EQCR role.
- Our evidence of EQCR review and challenge template has been refreshed and updated.
- We have delivered additional guidance on expectations for the EQCR reviewers and also shared good practice examples across the audit practice.
- We have included reminders of the EQCR requirements with respect to the need to hold discussions with Key Audit Partners of material subsidiaries in our EQCR briefings which are delivered to all EQCR reviewers.
- We included reminders within our ‘Group Audit’ and ‘Direction, Supervision & Review’ training modules in our main annual training (“TechEx”) on EQCR which focused on EQCR review requirements and policies.

Appropriately apply the FRC Ethical Standard, particularly in relation to the approval of non-audit services

How we have addressed this area as a firm

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

- We have updated our templates and guidance in respect of the Objective, Reasonable and Informed Third Party (‘ORITP’) test for non-audit services.
- We have updated our breach management policies, as well as introduced additional training and guidance on the revised FRC Ethical Standard.
- We continue to develop further guidance and to monitor all areas of the application of the FRC Ethical Standard to manage the risk of recurrence.
- We plan to run further workshops and training for all Partners and Directors in Autumn 2022 to communicate FRC findings, re-iterate latest guidance, share examples and common pitfalls with a specific focus on the ORITP test.

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 report 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
Audit Partner