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Dorset Council

Planning report to the Audit and Governance Committee for the year ending 31 March 2022

Issued on 13 March 2024 for the Committee on 25 March 2024

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Planning report

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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.

We have pleasure in presenting our planning report to the Audit and Governance Committee for the year ending 31 March 2022 audit. We would like to draw your attention to the key messages of this audit plan:

Audit Plan

We have updated our understanding of the Council informed by discussions with management and review of relevant documentation from across the Council.

Based on these procedures, we have developed this plan in collaboration with the Council to ensure that we provide an effective audit service that meets your expectations and focuses on the most significant areas of importance and risk to the Council.

Key Risks

We have taken an initial view as to the significant audit risks the Council faces. These are presented as a summary dashboard on page 15. We note the following changes to the significant risks from the prior year:

We have rebutted the presumed risk of fraud in revenue recognition, removing the “Recognition of Covid-19 grant income” identified in the prior year, and have identified an additional fraud risk of “Capitalisation of infrastructure and assets under construction expenditure” to reflect the high value of capital additions in year following delays to the capital programme in 2020/21 and the level of judgement required to correctly identify capital spend. We have also revised our valuation significant risk from the prior year to separately consider “Property valuations” and the “accounting for property valuations” to reflect the control findings from the prior year and the full portfolio valuation in 2021/22.

Our risk assessment has been informed by our knowledge from the audit of the 2020/21 financial statements.

Partner introduction

The key messages in this report (continued)

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.

During the prior year audit, we identified several misstatements in the financial statements. We have not deemed the quality of the 2021/22 financial statements to be a significant risk. However, we would expect a detailed review of the Statement of Accounts to be undertaken by senior members of the finance team before the Statement of Accounts are presented for audit.

Value for Money

Our Value for Money planning procedures are ongoing. However, based on our work completed so far, specific areas that we expect to focus on include the Council's longer-term planning for financial sustainability.

National Consultations

Following discussions between the Government, CIPFA, the FRC and the National Audit Office, consultations have been published on proposals for a national approach to outstanding local authority audits and for requirements for 2023/24 onwards. This includes a proposal to report all the open years for VFM (2020/21, 2021/22, and 2022/23) reported in a single Annual Auditors' Report. We are discussing with management realistically achievable timeframes and scope of work in line with the proposals from Government and the National Audit Office.

Our Commitment to Quality

We are committed to providing the highest quality audit, with input from our market leading specialists, sophisticated data analytics and our wealth of experience.

Ian Howse
Lead audit partner

Responsibilities of the Audit and Governance Committee

Helping you fulfil your responsibilities

Why do we interact with the Audit and Governance Committee?

- To communicate audit scope
- To provide timely and relevant observations
- To provide additional information to help you fulfil your broader responsibilities

As a result of regulatory change in recent years, the role of the Audit and Governance Committee has significantly expanded. We set out here a summary of the core areas of Audit and 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 and Governance Committee in fulfilling its remit.

Oversight of external audit

- At the start of each annual audit cycle, ensure that the scope of the external audit is appropriate.

Integrity of reporting

- Impact assessment of key judgements and level of management challenge.
- Review of external audit findings, key judgements, level of misstatements.
- Assess the quality of the internal team, their incentives and the need for supplementary skillsets.
- Assess the completeness of disclosures, including consistency with disclosures on business model and strategy and, where requested by the Board, provide advice in respect of the fair, balanced and understandable statement.

Internal controls and risks

- Review the internal control and risk management systems.
- Explain what actions have been or are being taken to remedy any significant failings or weaknesses.

Oversight of internal audit

- Consider annually whether the scope of the internal audit programme is adequate.
- Monitor and review the effectiveness of the internal audit activities.

Whistle-blowing and fraud

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

Our audit explained

What we consider when we plan the audit

Responsibilities of management

We expect management and those charged with governance to recognise the importance of a strong control environment and take proactive steps to deal with deficiencies identified on a timely basis.

Auditing standards require us to only accept or continue with an audit engagement when the preconditions for an audit are present. These preconditions include obtaining the agreement of management and those charged with governance that they acknowledge and understand their responsibilities for, amongst other things, internal control as is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Responsibilities of the Audit and Governance Committee

As explained further in the Responsibilities of the Audit and Governance Committee slide on the previous page, the Audit and Governance Committee is responsible for:

- Reviewing internal financial controls and internal control and risk management systems.
- Monitoring and reviewing the effectiveness of the internal audit function.
- Reporting in the annual report on the annual review of the effectiveness of risk management and internal control systems.
- Explaining what actions have been or are being taken to remedy any significant failings or weaknesses.

FRC guidance on good practice

The FRC, in its Review of Governance Reporting, issued November 2021, has identified good practice as including a detailed description of the process for reviewing the effectiveness of risk management and internal control systems and clarity on what the outcome of the review is. This would include whether any weaknesses or inefficiencies were identified and explanations of what actions have been taken by the entity, or will be taken, to remedy these.

Our response

As stakeholders tell us they to wish to understand how external audit challenges and responds to the quality of an entity’s control environment, we are seeking to enhance how we plan and report on the results of the audit in response. We will be placing increased focus on how the control environment impacts the audit, from our initial risk assessment, to our testing approach and how we report on misstatements and control deficiencies.

An audit tailored to you

Overview of our audit plan

Identify changes in your business and environment

We have spent time with management understanding the current year matters to assist with the preparation of our risk assessment for the audit. The matter which will have the biggest impact will be the continuing impacts from the Covid-19 pandemic. We will continue to keep this under review throughout the audit process.

Scoping

Our work will be carried out in accordance with the Code of Audit Practice and supporting auditor guidance notes issued by the NAO.

More detail is given on page 9.

In our final report

In our final report to you we will conclude on the significant risks identified in this paper and report to you our other findings.

Determine materiality

We have determined materiality for the Council of £15.3m (2020/21 £14.8m). This is based on 1.7% of gross expenditure on the provision of services per the 2021/22 draft financial statements. We have set performance materiality for the Council of £9.2m (2020/21 £9.6m), the reduction as a result of the misstatements identified in the prior year. We will report to you any misstatements above £0.76m (2020/21 £0.74m). We will also report to you any misstatements below this threshold if we consider them to be material by nature.

Significant risk assessment

The significant risks identified for 2021/22 are set out in detail from pages 14 to 21. In 2021/22 we have made the following changes to our significant risks. We have rebutted the presumed significant risk of fraud in revenue recognition, removing the prior year's "Recognition of Covid grant income" significant risk and identified a new risk of "Capitalisation of Infrastructure and Assets Under Construction expenditure", and have revised our property valuation risks

Quality and Independence

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

Scope of work and approach

Our approach

Financial Statements

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

We report on whether the financial statements:

- Give a true and fair view of the financial position and income and expenditure; and
- Are prepared in line with the Code of Practice on Local Authority Accounting (''the Code'').

Annual Governance Statement

We are required to report on whether other information published with the audited financial statements is consistent with the financial statements.

Other information includes information included in the Statement of Accounts, in particular the Narrative Report. It also includes the Annual Governance Statement which the Council is required to publish alongside the Statement of Accounts.

In reading the information given with financial statements, we take into account our knowledge of the Council, including that gained through work in relation to the Council's arrangements for securing value for money through economy, efficiency and effectiveness in its use of resources.

Value for Money conclusion

We are required to consider the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. If we identify any significant weaknesses, we are required to make recommendations, and to provide a narrative commentary on arrangements.

To perform this work, we are required to:

- Obtain an understanding of the Council's arrangements sufficient to support our risk assessment and commentary;
- Assess whether there are risks of a significant weakness in the Council's arrangements and perform additional procedures if a risk is identified. If a significant weakness is identified, we report this and an accompanying recommendation;
- Report in our audit opinion if we have reported any significant weaknesses; and
- Issue a narrative commentary in our Annual Auditor's Report on the arrangements in place.

Liaison with Internal Audit

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

We have reviewed the Internal Audit reports and the Head of Internal Audit Opinion for 2021/22 which rated the overall control environment as 'adequate'.

We will meet with the team to discuss their work and the work plan for Internal Audit. Where they identify specific material deficiencies in the control environment, we will consider adjusting our testing so that the audit risk is covered by our work.

Continuous communication and reporting

Planned timing of the audit

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

Planning	Year end fieldwork	Reporting activities	Subsequent activities
• Planning meetings to inform risk assessment; and agree on key judgemental accounting issues. • Review of key Council documents including Cabinet, Council and Audit and Governance Committee minutes.	• Document design and implementation of key controls and update understanding of key business cycles. • Update on value for money responsibilities. • Substantive testing of all areas. • Finalisation of work in support of value for money responsibilities. • Detailed review of annual accounts and report, including Annual Governance Statement. • Review of final internal audit reports and opinion. • Completion of testing on significant audit risks.	• Year-end closing meetings. • Issue Audit and Governance Committee paper. • Reporting of significant control deficiencies. • Whole of Government Accounts reporting.	• Signing audit report in respect of the Financial Statements. • Issuing the Auditor's Annual Report.
2021/22 Audit Plan		Report to the Audit and Governance Committee	
2022 to March 2024	**March – April 2024**	**April 2024**	**Summer 2024**

Ongoing communication and feedback

Materiality

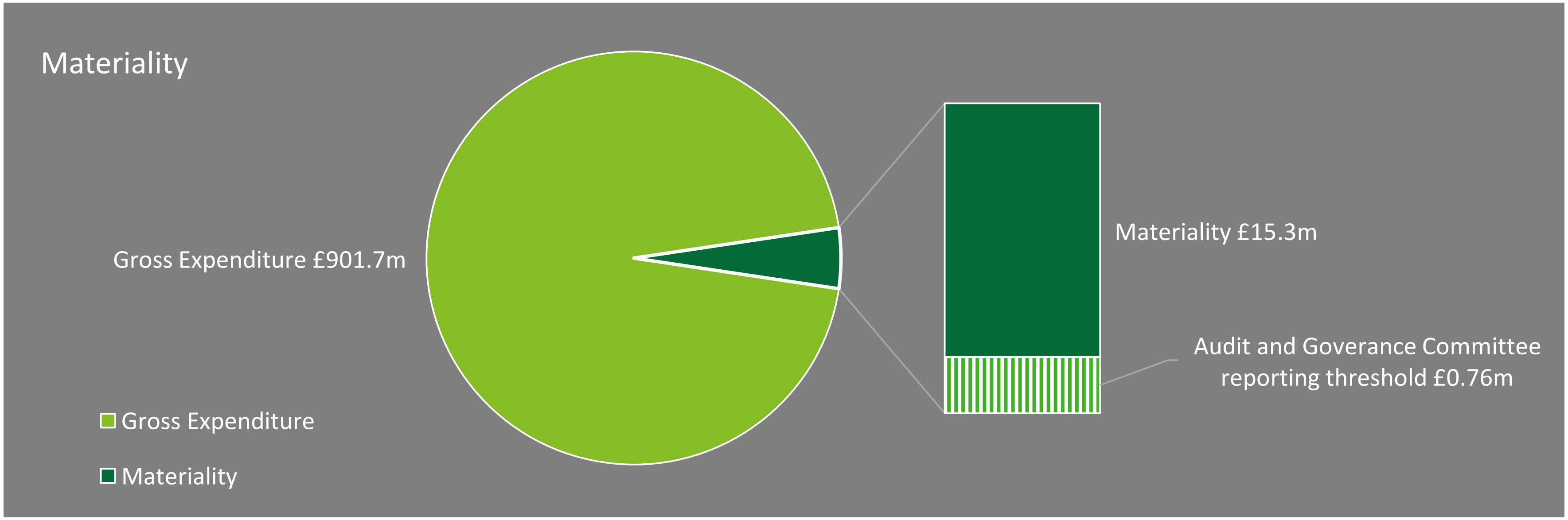
Our approach to materiality

Basis of our materiality benchmark

- The audit partner has determined materiality as £15.3m (2020/21: £14.8m), based on professional judgement, the requirement of auditing standards and the financial measures most relevant to users of the financial statements.
- We have used 1.7% of gross expenditure on the provision of services per the 2021/22 draft financial statements as the benchmark for determining materiality.

Reporting to those charged with governance

- We will report to you all misstatements found in excess of £0.76m (2020/21: £0.74m).
- We will report to you misstatements below this threshold if we consider them to be material by nature.



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

Covid-19 impact on annual report and financial statements

Impact on property, plant and equipment	The Royal Institute of Chartered Surveyors issued a practice alert in March 2020, as a result of which valuers identified a material valuation uncertainty at 31 March 2020 for most types of property valuation, resulting in disclosure in financial statements and "emphasis of matter" paragraphs in audit reports. By September 2020, RICS considered that there was no longer material uncertainty over valuations from that date, and therefore valuations at 31 March 2022 are not expected to be affected by material valuation uncertainties. We have confirmed that there are no valuations that have been reported with a material valuation uncertainty at the 31 March 2022. The Council needs to consider its approach to the measurement of property, plant and equipment (PPE). Where property held at current value is based on market valuations the Council should consider with their valuers the impact that Covid-19 has had on current value. The Council will also need to consider whether there are any indications of impairment of assets requiring adjustment at 31 March 2022.
Impact on pension fund investment measurement	As a result of the Covid-19 pandemic, pension fund investments have been subject to volatility. It is important to engage with custodians and fund managers to not only gather information for year-end measurements but to also understand any estimation techniques and any changes to those techniques that may be needed to measure the financial instruments. Where such volatility exists 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. There was a triennial valuation as at the 31 March 2022 which resulted in updated year end membership data being available. As a result of this the Council have been required to obtain an updated IAS19 report to reflect the updated membership information.
Expected credit losses	Although the impact of the pandemic reduced in 2021/22, there was a significant downturn in economic activity, with many businesses and individuals significantly impacted. The Council will need to consider the provision for credit losses for receivables, including for expected credit losses for assets accounted for under IFRS 9.

Covid-19 impact on annual report and financial statements (continued)

Financial risk disclosures	The Council needs to report on the impact of financial pressures and its financial sustainability in the Narrative Report and the relevant liquidity reporting requirements under the Code's adoption of IFRS 7 Financial Instruments: Disclosures.
Narrative and other reporting issues	The following areas will 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
Events after 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.

Significant risks

Our risk assessment process

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

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

Deloitte view

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

Page 15 summarises the significant risks that we will focus on during our audit.

Principal risk and uncertainties

- Future levels of funding
- Delivery of savings

Changes in your business and environment

- Impacts of Covid-19
- Continued overspends in People - Adults and Children's Services

IAS 1 Critical accounting estimates

- Pension liability
- Property, plant and equipment valuation

NAO – Auditor Guidance Note 06

The National Audit Office identified Dedicated Schools Grant – negative reserve and pension guarantees to other entities as key issues in their Local Government Audit Planning guidance issued in November 2022.

We reviewed the approach being taken by the Council in response to these in the prior year audit and will refresh our understanding for the current year.

We do not believe any of these matters represent a significant audit risk but we will carefully review the approach being taken by the Council to address these issues.

Significant risks

Significant risk dashboard

Risk	Fraud risk	Planned approach to controls	Level of management judgement	Page no.
Management override of controls	✓	DI	Medium	16
Completeness and accuracy of accrued expenditure	✓	DI	Medium	17
Capitalisation of infrastructure and assets under construction expenditure	✓	DI	Medium	18
Property valuations	✗	DI	Medium	19
Accounting for the property valuations	✗	DI	Low	20
Pension liability valuation	✗	DI	Low	21

Level of management judgement

- Low level of judgement
- Medium level of judgement
- High level of judgement

Controls approach adopted

- DI Assess design & implementation
- OE Test and rely on operating effectiveness
- S Involvement of IT specialists

Significant risks

Risk 1 – Management override of controls

Risk identified	In accordance with ISA 240 (UK), management override of controls is a significant risk due to fraud 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 and accuracy of accrued expenditure, capitalisation of expenditure, 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 judgement to influence the financial statements.
Our response	In considering the risk of management override, we plan to perform the following audit procedures that directly address this risk: • We will consider the overall control environment and 'tone at the top'; • We will review the design and implementation of controls relating to journals and accounting estimates; • We will make 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 will test the appropriateness of journals and adjustments made in the preparation of the financial statements. We will use our Spotlight data analytics tools to select journals for testing, based upon identification of items of potential audit interest; • We will review accounting estimates for biases that could result in material misstatements due to fraud and perform testing on key accounting estimates as discussed above; and • We will obtain an understanding of the business rationale of significant transactions that we become aware of that are outside of the normal course of business for the entity, or that otherwise appear to be unusual, given our understanding of the entity and its environment.

Significant risks

Risk 2 – Completeness and accuracy of accrued expenditure

Risk identified	Under ISA 240, there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. In the current year, we have identified a risk specifically to year end accrued expenditure. 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. For Dorset Council, there is therefore an inherent risk that the Council may materially misstate its expenditure through the understatement of accrued expenditure in an attempt to report a more favourable year end position.
Our response	In considering the risk of the completeness and accuracy of accrued expenditure, we plan to perform the following audit procedures that directly address this risk: • We will review the design and implementation of the key controls in place in relation to the recording of year end expenditure accruals; • We will test a sample of accruals to supporting documentation to check whether they are valid liabilities, that the amount accrued is appropriately supported, and that the liability was incurred as at 31 March 2022; and • We will test a sample of post year end payments, per the Council's bank statements, and post year end invoices received, in order to ensure that the associated expenditure has been included in the correct period.

Significant risks

Risk 3 – Capitalisation of infrastructure and assets under construction expenditure

Risk identified	Under ISA 240, there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. In the current year, we have identified a risk specifically to the capitalisation of expenditure of infrastructure assets and assets under construction. There is an inherent risk associated with the recording of expenditure as capital expenditure. This is because the Council could incorrectly recorded expenditure as capital rather than as revenue expenditure, which would then result in the expenditure not being included Council's revenue outturn for the year. There is also an increased level of management judgement in determining whether expenditure is capital in nature, particularly for infrastructure assets and assets under construction where these involve larger complex projects compared to the other categories of fixed assets.
Our response	In considering the risk of capitalisation of infrastructure asset and assets under construction expenditure, we plan to perform the following audit procedures that directly address this risk: • We will review the design and implementation of the key controls in place in relation to capital additions and the judgements in assessing if spend is capital in nature; • We will test a sample of in additions to infrastructure assets and assets under construction to supporting documentation, considering whether the spend has been appropriately capitalised.

Significant risks

Risk 4 – Property valuations

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 revalued all owner occupied land and property as well as investment land and property as at 1 January 2022, carried out by Bruton Knowles. In the current year, we have identified a risk specifically to the valuation of non-specialised assets. Non-specialised assets are valued at current value. For operational assets this the existing use value and for non-operational assets this is the fair value to sell the asset. Valuations are inherently judgemental and include a number of assumptions by the valuer.
Our response	In considering the risk relating to the valuation of non-specialised assets, we plan to perform the following audit procedures that directly address this risk: • We will review the design and implementation of the controls in place in relation to property valuations; • We will consider the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work; • We will engage our valuation specialists, Deloitte Real Asset Advisory, to review and challenge the appropriateness of the assumptions used in the valuation of the Council's property assets; • We will sample test key asset information used by the Council's valuers in performing their valuation, such as such as rents, income and gross internal areas, back to supporting documentation.

Significant risks

Risk 5 – Accounting for the property valuation

Risk identified	The accounting for valuation of property, plant and equipment requires detailed and complex accounting transactions to be calculated and processed by the Council. This includes determining and processing the correct entries in relation to impairments and historic impairment reversals through the CIES. Given the total value of assets being revalued at 1 January 2022, we have identified a risk specifically to the accuracy of the translation of the valuer’s report into the general ledger.
Our response	In considering the risk relating to the accounting for the property valuation, we plan to perform the following audit procedures that directly address this risk: • We will obtain an understanding of the design, and test the implementation, of the key controls in place in relation to the processing of the accounting entries into the general ledger. • For a sample of assets, we will test the accuracy of the accounting entries posted by the Council. • We will review the presentation of the revaluation movements, and the disclosures included in the financial statements.

Significant risks

Risk 6 – Pension liability valuation

Risk identified	The net pension liability is a material element of the Council's balance sheet. 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, mortality rates. These assumptions should also reflect the profile of the Council's employees, and should be based on appropriate data. There is a risk that the assumptions and methodology used in the valuation of the Council's pension obligation are not reasonable. This could have a material impact to the net pension liability accounted for in the financial statements. There was a triennial valuation as at the 31 March 2022 which resulted in updated year end membership data being available. As a result of this the Council have been required to obtain an updated IAS19 report to reflect the updated membership information.
Our response	In considering the risk relating to the valuation of the pension scheme liability, we plan to perform the following audit procedures that directly address this risk: • We will obtain an understanding of the design, and test the implementation, of the key controls in place in relation to the review of the assumptions by the Council; • We will liaise with the audit team of Dorset Pension Fund to obtain assurances over the information supplied to the actuary in relation to the Council, including the membership data included in the triennial valuation; • We will assess the competence, objectivity and independence of Barnett Waddingham, the actuarial specialist, supporting the basis of reliance upon their work; • We will agree the actuarial report for the Council produced by Barnett Waddingham, the scheme actuary, to the Statement of Accounts pension disclosures; • We will review the disclosures made in the Statement of Accounts against the requirements of the CIPFA Code; and • We will use our internal actuarial specialists to review and challenge the assumptions used in the valuation of the pension scheme liability.

Value for Money

Areas of focus

We are required to consider the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources. In accordance with Code of Audit Practice 2020 and related Auditor Guidance Note 03, 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 VfM arrangements, which might include emerging risks or issues; and
- Where significant weaknesses are identified, report this by exception within our financial statement audit opinion.

AGN03 requires auditors to set out the results of their risk assessment as part of the audit planning report. Specific areas that we expect to focus on in understanding the Council's arrangements include the Council's longer-term planning for financial sustainability and the Council's management of the capital programme and backlog in the capital programme.

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to establish our respective responsibilities in relation to the financial statements audit, to agree our audit plan and to take the opportunity to ask you questions at the planning stage of our audit. Our audit plan includes our considerations of key audit judgements and our planned scope.

What we don't report

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

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

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

Use of 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. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

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

Other relevant communications

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

Deloitte LLP

Cardiff | 13 March 2024

Appendices

Prior year audit adjustments

Uncorrected misstatements

The following uncorrected misstatements were identified in relation to the prior year audit:

		Debit/(credit) Comprehensive Income and Expenditure Statement £’m	Debit/ (credit) Net Assets £’m	Debit/ (credit) OCI / Equity £’m
Misstatements identified in the prior year				
Valuations - Overstatement of revalued car parks	[1]		(5.6)	5.6
Valuations - Reversal of historic impairments not posted	[2]	(1.7)	1.7	
Valuations – North Quay Offices	[3]		0.3	(0.3)
Valuations – Valuation accounting entries - extrapolated errors	[4]	1.2	(1.2)	
No Allowance for Goodwin Ruling	[5]		(4.5)	4.5
Capital grant lease premium	[6]	1.5	(1.5)	
Capital grant income – projected error	[6]	2.0	(2.0)	
Pension asset valuation	[7]		9.1	(9.1)
Previous District Council’s Infrastructure Assets	[8]		(0.7)	0.7
Post year end payments not recognised in the correct year - Extrapolation	[9]	1.3	(1.3)	
NNDR Appeals Provision	[10]	(3.4)	3.4	
		0.9	**(2.3)**	**1.4**

Prior year audit adjustments

Uncorrected 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]	We identified two misstatements in relation to the valuation of the North Quay asset with a net impact of understating the asset value by £0.3m • When the value of the asset was entered into the ledger with the prior year value of the associate car park was added. The valuer had valued North Quay inclusive of the car park, therefore the value of the car park (£0.6m) was doubled counted in the value included in the financial statements, resulting in the asset being overstated by £0.6m • Following our challenge of the valuation provided by NPS, the value of the asset was increased by £0.9.
[4]	From our sample testing of the accounting entries posted for the revaluations, we identified trivial errors totalling £0.2m. We have extrapolated this error over the population to assess the expected error within the total valuation entries posted.
[5]	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.
[6]	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.
[7]	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%).

Prior year audit adjustments

Uncorrected misstatements (continued)

[8]	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.
[9]	As part of our testing of post year end bank payments, we identified three trivial payments which related to 2020/21 which had not been accrued for correctly. The total of these payments were trivial, we have reported the immaterial extrapolated error.
[10]	We have performed a benchmarking review of the NDR Appeals Provision, comparing other unitary authorities that are like Dorset. We determined our expectation of the provision to be £9.0m, £3.4m less than the provision currently held by Dorset.

Prior year audit adjustments

Disclosures

Disclosure misstatements

The following uncorrected disclosure misstatements were identified in relation to the prior year audit:

Disclosure	Summary of disclosure finding
Contingent Assets	The contingent assets note has been overstated by £2.0m, as one figure had been incorrectly treated as a contribution per dwelling, rather than as a one-off contribution per the S106 agreement.
Property, plant and equipment	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. This finding has not been corrected. The Assets under construction additions line is understated by £9.6m and other movements line overstated by £9.6m. The Other land and buildings additions line overstated by £9.6m, and other movements line understated by £9.6m.
Revenue from Contracts with Service Recipients	In ‘Corporate Development’ income testing, one item had ben incorrectly classified as 'Other Income’, rather than 'Income from Contracts with Customers’, giving a factual error of £78k. Management have corrected this item within the note. Applying our audit methodology, we have extrapolated the error over the remaining untested population to determine the projected error present in the population of Corporate Development income which has been incorrectly classified as 'Other Income' to be £2.9m.

Prior year audit adjustments

Disclosures (continued)

Disclosure	Summary of disclosure finding
Property, plant and equipment	Following reconciliation of the PPE Note back to the general ledger, and to the listing of owned assets, PFI assets and leased assets, we identified that the Council had not accurately analysed the owned asset information into the depreciation lines of the disclosure, such that several depreciation line items presented are incorrect, and depreciation written out on disposal has not been presented in the disclosure. Management have not corrected the disclosure. There is no impact on the total balance of accumulated depreciation within the disclosure.
Summary of capital expenditure and financing	The summary of capital expenditure and financing note was a newly added note to the 2020/21 financial statements. The opening balance has been presented but prior period comparative figures have not been added. The CIPFA Code (3.4.2.17 f) requires prior year comparatives to be included.
Retirement Benefits	The disclosure of the split and value of the Council's pension fund assets includes a classification error identified by the pension fund auditor. The Council's share of the pension fund assets is 37.11%. The classification error identified by the Pension Fund auditors is to reclassify £20m from pooled investment vehicles (multi asset credit) to cash in transit (cash). The error reflected in the Council's disclosure is 37.11% of £20m, i.e. £7,422k. Multi Asset Credit overstated by £7,422k Cash understated by £7,422k Net impact on assets - nil.

Prior year audit adjustments

Disclosures (continued)

Disclosure	Summary of disclosure finding
Financing & investment income and expenditure	The following disclosure in Note 21 was identified: "Interest payable and receivable on service concessions and finance leases is included within the appropriate lines of costs of services in the Comprehensive Income and Expenditure Statement. Revenue costs for leases are specifically calculated asset by asset and included in the deficit on provision of services line on the Comprehensive Income and Expenditure Statement." Per the CIPFA Guidance, interest payable and receivable on service concessions and finance leases should be reported under 'financing and investment income and expenditure' and not under the provision of services. We have therefore raised a disclosure deficiency in relation to these amounts in note 21: 1) Interest payable on service concessions (PFI Schemes) £1,401k. 2) Interest payable on finance leases (property) -£162k. 3) Interest payable on finance leases (plant & equipment) £(273)k. 4) Interest receivable on finance leases (property) £7k. 5) Net interest payable: £(1,829)k
Future Capital Commitments	Our substantive sample testing of this note identified one item, Dorset Innovation – MOD, which had been overstated by £683k. Management have corrected this item within the note. Applying our audit methodology, we have extrapolated the error over the remaining untested population to determine the projected error present in the remainder of the population to be £2,657k.

Our other responsibilities explained

Fraud responsibilities

Your Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Our responsibilities:

- We are required to obtain representations from your management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.
- As set out in the significant risks section of this document, we have identified risks of material misstatement due to fraud in completeness and accuracy of accrued expenditure, infrastructure assets and assets under construction capital additions, and management override of controls.
- 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.
- We will communicate to you any other matters related to fraud that are, in our judgment, relevant to your responsibilities. In doing so, we shall consider the matters, if any, regarding management's process for identifying and responding to the risks of fraud and our assessment of the risks of material misstatement due to fraud.

Fraud Characteristics:

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

Our other responsibilities explained

Fraud responsibilities (continued)

We will make the following inquiries regarding fraud and non-compliance with laws and regulations:

Management and other personnel:

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

Internal audit

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

Those charged with governance

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

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 will reconfirm our independence and objectivity to the Audit and Governance Committee for the year ending 31 March 2022 in our final report to the Audit and Governance Committee.
Fees	Details of the non-audit services fees proposed for the period have been presented separately in the appendix.
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.

Independence and fees

The professional fees expected to be charged by Deloitte in the period from 1 April 2021 to 31 March 2022 are as follows:

	Current year £	Prior year £
Financial statement audit of the Council	180,000	180,000
Additional fee for prior year audit [1] *	-	TBC
Additional fee for the current year audit [2] *	TBC	-
Financial statement audit of the pension fund	21,123	21,123
Total audit	**201,123**	**201,123**
Audit related assurance services – Teachers' pension return	4,000	4,000
Total assurance services	**4,000**	**4,000**
Total fees	**205,123**	**205,123**

[1] During the 2020/21 audit we have been required to complete additional procedures that are not taken into account in the scale fee of £180,000 above. Following the completion of the audit we will discuss the fee implications with management and present our fee proposal back to the Audit and Governance Committee.

[2] Fee for additional audit work to be agreed once the audit has been concluded. We expect there to be additional procedures for areas such as value for money work and any other one-off transactions. The fee is also based on receipt of audit information on a timely basis and the draft accounts being of good quality.

* All additional fees are subject to agreement with PSAA.

Our approach to quality

FRC 2022/23 Audit Quality Inspection and Supervision report

Audit public interest to quality is at the heart of everything we do. We are committed to acting with the highest levels of integrity in the deliver confidence and trust in business.

In July 2023, the Financial Reporting Council ("FRC") issued individual reports on each of the seven largest firms, including Deloitte on Audit Quality Inspection and Supervision, providing a summary of the findings of its Audit Quality Review ("AQR") team for the 2022/23 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, our inspection results for our audits selected by the FRC as part of the 2022/23 inspection cycle remain consistent year-on-year, with 82% of all inspections in the cycle assessed as good or needing limited improvement. This reflects the ongoing investment we continue to make in audit quality, with a relentless focus on continuous improvement. Our audit culture and the audit quality environment we create are critical to our resilience and reputation as a business and we remain committed to our role in protecting the public interest and creating pride in our profession.

We value the observations raised by both the FRC AQR and Supervision teams, both in identifying areas for improvement and also the increasing focus on sharing good practice to drive further and continuous improvement.

We are pleased to see the positive impact of actions taken over the last 12-18 months to address findings raised by the FRC in the prior year relating to EQCR, Independence & Ethics and Group Audits, with none of these areas identified as key findings in this year's engagement inspection cycle. The reduction in findings in this area reflects the ongoing effectiveness of the actions taken, particularly the successful rollout of our group audit coaching programme. Our EQCR transformation programme, which commenced in the second half of 2021, has served to further enhance the effectiveness of our EQCR process and led to improved evidence on our audit files demonstrating the EQCR challenge.

We welcome the breadth and depth of good practice points raised by the FRC, particularly in respect of effective group oversight and effective procedures for impairments, where we have made sustained efforts and investment to drive consistency and high-quality execution.

All the AQR public reports are available on the FRC's website:

Audit Firm Specific Reports - Tier 1 audit firms | Financial Reporting Council (frc.org.uk)

Our approach to quality

FRC 2022/23 Audit Quality Inspection and Supervision report

The AQR's 2022/23 Audit Quality Inspection and Supervision Report on Deloitte LLP

"In the 2021/22 public report, we concluded that the firm had continued to show improvement in relation to its audit execution and firm-wide procedures.

82% of audits inspected were found to require no more than limited improvements. None of the audits we inspected this year were found to require significant improvements and 82% required no more than limited improvements, the same as last year. This was the case for 78% of FTSE 350 audits (91% last year). The firm has maintained its focus on audit quality on individual audits, with consistent FRC inspection results.

The areas of the audit that contributed most to the audits assessed as requiring improvements were revenue and margin recognition, and provisions. There continues to be findings related to the audit of provisions, which was a key finding last year, although in different areas of provisioning. At the same time, we identified a range of good practice in these and other areas."

Inspection results: review of the firm's quality control procedures

"This year, our firm-wide work focused primarily on evaluating the firm's: actions to implement the FRC's Revised Ethical Standard; partner and staff matters; acceptance, continuance, and resignation procedures; and audit methodology relating to settlement and clearing processes.

Our key findings related to compliance with the FRC's Revised Ethical Standard, timely continuance procedures, and audit methodology relating to settlement and clearing processes.

We identified good practice points in the areas of compliance with the FRC's Revised Ethical Standard, partner and staff matters, and acceptance, continuance and resignation procedures."

Value for Money deadline extension

Letter to the Audit and Governance Committee highlighting the 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, we have not yet 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 November 2022.

Yours faithfully

Ian Howse
Audit Partner