



# Dorset Council

Report to the Audit and Governance Committee on the 2021/22 audit

Issued on 29 November 2024 for the Committee on 9 December 2024

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# 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 report to the Audit and Governance Committee for Dorset Council (the Council) for the 2021/22 audit. I would like to draw your attention to the key messages in this paper:

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<b>Status of our Statement of Accounts audit</b>	<p>Our financial statements audit is substantially complete, subject to completion of the following areas:</p> <ul style="list-style-type: none"><li>• Review of the revised Statement of Accounts to ensure all expected adjustments have been made;</li><li>• Completion of our internal quality assurance procedures;</li><li>• Review of events from 31 March 2022 to the date of signing the financial statements; and</li><li>• Receipt of signed management representation letter.</li></ul> <p>We are working constructively with the Council to complete our work by 13 December 2024 and we will provide the Committee with a verbal update on our progress at the meeting on 9 December 2024.</p>
<b>Status of our Value for Money audit</b>	<p>Our Value for Money work is ongoing, and will be reported in our Auditor's Annual Report in January 2025.</p> <p>We have not identified to date any risks of significant weakness in arrangements to secure economy, efficiency and effectiveness in the use of resources.</p> <p>We have no matters to report by exception in our financial statement audit opinion.</p>
<b>Conclusions from our testing</b>	<p>The key judgements in the audit process related to:</p> <ul style="list-style-type: none"><li>• Completeness and accuracy of accrued expenditure;</li><li>• Capitalisation of infrastructure and assets under construction expenditure;</li><li>• Property valuations;</li><li>• Accounting for the property valuations; and</li><li>• Valuation of the pension scheme liability.</li></ul> <p>We have made recommendations for improvement to controls on pages 15 and 18 and have identified and reported uncorrected misstatements on pages 25 to 29.</p>

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# Introduction

## The key messages in this report (continued)

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**Prior year adjustment**

It was identified that the Colfox School has transferred to an Academy Trust in 2015 and as such the Council no longer controlled the asset. The Council had retained the asset on its balance sheet up to 2020/21. The Council has made a prior year adjustment to correct this, restating the affected lines throughout the financial statements with the balance sheet most significantly impacted as the carrying value at 1 April 2020 was £23.7m. The Council has presented disclosures to explain the restatement and the impact on all the affected lines. Our testing of the adjustment is complete, subject to finalising our internal quality reviews

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**Narrative Report & Annual Governance Statement**

- We have reviewed the Council's Annual Report & Annual Governance Statement to consider whether they are 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.

The finalisation of these reviews are ongoing.

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**Duties as public auditor**

- We did not receive any formal queries or objections from local electors this year.
- At the date of issuing our report, we have not identified any matters that would require us to issue a public interest report.
- At the date of issuing our report, we have not had to exercise any other audit powers under the Local Audit and Accountability Act 2014.

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**Whole of Government Accounts**







Following guidance issued by the NAO we are no longer required to perform testing on the Council's WGA submission for 2021/22.

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Ian Howse  
Lead audit partner

# Significant Risks and Areas of Audit Focus




## Dashboard

Risk	Fraud risk	Level of management judgement	Approach to controls testing	Controls conclusion	Page no.
Management override of controls				Satisfactory	6
Completeness and accuracy of accrued expenditure				Recommendations raised	8
Capitalisation of infrastructure and assets under construction				Recommendations raised	9
Property valuations				Satisfactory	10
Accounting for the property valuation				Recommendations raised	11
Pension liability valuation				Recommendations raised	12

### Controls approach adopted

-  Assess design & implementation
-  Test operating effectiveness of relevant controls

### Level of management judgement

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

# Significant audit risks (continued)

## Management override of controls

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**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 infrastructure and assets under construction 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.

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**Deloitte response and challenge** We have considered management's 'tone at the top' and 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 reviewed 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 our Spotlight data analytics tools to identify a sample of journals, based upon identification of items of potential audit interest. Our analysis has covered all journals posted in the year. We have tested the appropriateness of the journals identified.
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# Significant audit risks (continued)

## Management override of controls

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### Deloitte response and challenge

#### Accounting estimates

- We have assessed the design and implementation of controls over key accounting estimates and judgements.
- The key judgements in the financial statements are those selected as significant audit risks: completeness and accuracy of expenditure accruals, capitalisation of infrastructure and assets under construction expenditure, 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.

#### Significant transactions

- We have tested the Council's accounting and treatment of the 2021/22 DSG Safety Valve, as it was a significant transaction that was initiated for 2021/22.
- Aside from the above, we did not identify any significant transactions outside the normal course of business or any transactions where the business rationale was not clear.

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### Conclusion

Our testing is complete, subject to finalising our internal quality reviews. At the time of writing this report, we have no matters to report to the Audit and Governance Committee. We will provide the Committee with a verbal update at the meeting on 9 December 2024.

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# Significant audit risks (continued)

## Completeness and accuracy of accrued expenditure

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**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.

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**Deloitte response and challenge**

We have completed the following procedures:

- We have reviewed the design and implementation of the key controls in place in relation to the recording of year end expenditure accruals.
- We have tested a sample of year end accrued expenditure to supporting documentation to check whether the accruals represent valid liabilities, the amounts accrued are appropriately supported, and that the liabilities were incurred as at 31 March 2022.
- We have tested a sample of post year end payments and post year end invoices received, testing whether the associated expenditure has been recognised in the correct period.

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**Conclusion**

Our testing is complete, subject to finalising our internal quality reviews. At the time of writing this report, we have not found any evidence of fraud in the completeness and accuracy of accrued expenditure. However, our testing has identified the following errors, which have been included in our schedule of misstatements (pages 25 to 29) and we have raised recommendations on page 16:

- Sample testing of the accruals balance identified several instances where the accrued amount was overstated when compared to subsequent evidence and payments. Factual overstatement of £2.0m, projected overstatement of £5.6m, total projected overstatement of £7.6m.
- Sample testing of post year end payments identified a number of trivial items which related to expenditure which should have been accrued for in 2021/22. We have projected the understatement of accrued expenditure to be £4.0m.
- Sample testing of post year end invoices identified a number of trivial items which related to expenditure which should have been accrued for in 2021/22. We have projected the overstatement of accrued expenditure to be £1.5m.

We will provide the Audit and Governance Committee with a verbal update at the meeting on 9 December 2024.



# Significant audit risks (continued)

## Capitalisation of infrastructure and assets under construction expenditure

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**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 record 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.

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**Deloitte response and challenge** We have completed the following procedures:

- We have reviewed 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 have tested a sample of additions to infrastructure assets and assets under construction to supporting documentation, considering whether the spend has been appropriately capitalised.

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**Conclusion** Our testing is complete, subject to finalising our internal quality reviews. At the time of writing this report, we have not found any evidence of fraud in the capitalisation of infrastructure and assets under construction expenditure. However, we have identified a control finding in relation to the review of capital expenditure and the assessment of whether the expenditure is capital in nature, which we have included in our schedule of control findings (page 18). Our substantive testing has identified the following errors, which have been included in our uncorrected misstatements schedule (pages 25 to 29) and related recommendation raised on page 16:

- Sample testing of the infrastructure additions balance identified a number of trivial items which had been recognised as capital expenditure, but we assessed were not capital in nature. We have projected the over statement of infrastructure additions to be £1.2m.
- Sample testing of the assets under construction additions balance identified a number of trivial items which had been recognised in the wrong period, but we assessed they were suitable expenditure to be capitalised. We have projected the over statement of assets under construction additions at year end to be £5.9m.

We will provide the Audit and Governance Committee with a verbal update at the meeting on 9 December 2024.

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# Significant audit risks (continued)

## Property valuations

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**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 significant risk specifically to the valuation of non-specialised assets.

Non-specialised assets are valued at current value. For operational assets this is 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.

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**Deloitte response and challenge**

We have completed the following procedures:

- We have reviewed the design and implementation of key controls in place in relation to property valuations.
  - We have engaged 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 have considered the work performed by the Council's valuer, Bruton Knowles, including the adequacy of the scope of the work performed, their professional capabilities, and the results of their work.
  - For a sample of assets, we have tested the key asset information used by the Council's valuers in performing their valuation, such as rents, income, and gross internal areas back to supporting documentation.
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**Conclusion**

Our testing is complete, subject to finalising our internal quality reviews. At the time of writing this report, we have not identified any errors above our reporting threshold that we are required to report to the Committee. We will provide the Audit and Governance Committee with a verbal update at the meeting on 9 December 2024.

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# Significant audit risks (continued)

## Accounting for the valuation of the property valuation

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**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 significant risk specifically to the accuracy of the translation of the valuer's report into the general ledger.

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**Conclusion** We have completed the following procedures:

- We have reviewed the design and implementation of key controls in place in relation to the processing of the accounting entries into the ledger.
- For a sample of assets, we have tested the accuracy of the accounting entries posted by the Council.
- We have reviewed the presentation of the revaluation movements, and the disclosures included in the financial statements.

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**Conclusion** Our testing is complete, subject to finalising our internal quality reviews. At the time of writing this report, we have not identified any errors above our reporting threshold in our testing of the accounting for the valuation of the property. We have raised a recommendation on page 16 in relation to the application of valuer's reported revised useful economic lives.

We will provide the Audit and Governance Committee with a verbal update at the meeting on 9 December 2024.

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# Significant audit risks (continued)

## Pension liability valuation

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<b>Risk identified</b>	<p>The net pension liability is a material element of the Council's balance sheet.</p> <p>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.</p> <p>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.</p> <p>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.</p>
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<b>Deloitte response and challenge</b>	<p>We have completed the following procedures:</p> <ul style="list-style-type: none"><li>• We have reviewed the design and implementation of the key controls in relation to the Council's review of the assumptions used by the actuary.</li><li>• We liaised with the audit team of the Dorset County 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.</li><li>• We assessed the competency, objectivity and independence of Barnett Waddingham, the actuarial specialist, supporting the basis of reliance upon their work.</li><li>• We agreed the actuarial report for the Council, based on the 31 March 2022 Triennial Valuation, produced by Barnett Waddingham, the scheme actuary, to the Statement of Accounts pension disclosures.</li><li>• We reviewed the disclosures made in the Statement of Accounts against the requirements of the CIPFA code.</li><li>• We used our internal actuarial specialists to review and challenge the assumptions used in the valuation of the pension scheme liability.</li></ul>
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# 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	Assessment key
Discount rate (% p.a.)	2.60%	2.60 - 2.80%		In reasonable range 
Consumer Price Index (CPI) Inflation rate (% p.a.)	3.20%	3.00-3.20%		Towards limit of reasonable range 
Salary increase (% p.a.) (over RPI inflation)	4.20%	Employer specific		Optimistic or Prudent 
Pension increase in deferment and payment (% p.a.)	3.20%	In line with CPI		
Pension increase in deferment (% p.a.)	2.80%	2.80%		

### Goodwin Judgement

The Goodwin judgement relates to sex discrimination as a result of 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 2022, 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 0.1% of the defined benefit obligation which is approximately £2.3m and is not considered to be material.

### Conclusion

Our testing is complete, subject to finalising our internal quality reviews. At the time of writing this report, we have not found any evidence of fraud in our testing of the pension liability valuation.

However, our procedures have identified the following unadjusted misstatements, which have been included in our schedule of misstatements (pages 25 to 29) and recommendation on page 16:

- The pension fund auditor informed us of a £8.0m understatement of pension fund assets, of which we have assessed the Council's share of the assets to be £3.0m.
- The actuary has not made an allowance for the Goodwin ruling. Our actuaries have estimated the impact of this is a £2.3m understatement of the defined liability.

We will provide the Audit and Governance Committee with a verbal update at the meeting on 9 December 2024.

# Value for money

Our work is ongoing and will be reported in our Auditor's Annual Report

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## 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);
- Perform 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.

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## Status of our work

Our Value for Money work is ongoing and we will provide an update to the Audit and Governance Committee on the 9 December 2024.

At the time of writing this report we have not identified any significant weaknesses.

We will issue our full Auditors Annual Report by the 31 January 2025.

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# Control environment and findings

## Control deficiencies and areas for management focus

	Observation	Year first reported	Deloitte recommendation
[1]	<p><b>Application of valuer’s revised Useful Economic Lives (UELs)</b></p> <p>It was identified that due to the late receipt of the valuer’s report, in September 2022, the Council did not apply the valuer’s revised UELs. This resulted in the overstatement of depreciation for the three months between 1 January 2022, the date of the valuation, and 31 March 2022.</p>	2024	We recommend the Council reviews its arrangements with its valuer and the processes in place to ensure information reported by the valuer is applied from the effective valuation date.
[2]	<p><b>Timing of Wimborne disposal</b></p> <p>It was identified that the Wimborne school was transferred to an Academy on 1 May 2021. The disposal was not processed in the fixed asset register / general ledger until 31 March 2022. This resulted in the overstatement of the depreciation charged to 31 March 2022 and the understatement of the ‘loss on disposal of Academies’.</p>	2024	We recommend the Council reviews the processes in place to ensure timely reporting and accounting of disposals.
[3]	<p><b>Pension fund obligation, Goodwin judgement</b></p> <p>It was identified that the Council’s actuary had not made an allowance for the Goodwin judgement. Based on information that we have seen for other LGPS schemes, our actuaries have estimated that the cost would be around 0.1% of the defined benefit obligation, which is £2.3m.</p>	2024	We recommend the Council assesses its arrangements with the actuary such that consideration is made to the inclusion of an allowance for the Goodwin judgement in the valuation of the defined benefit obligation.

# Control environment and findings (continued)

## Control deficiencies and areas for management focus

	Observation	Year first reported	Deloitte recommendation
[4]	<b>Cut-off of capital grant income</b> Our testing identified exceptions where capital grant income had not been recognised in the correct financial year.	2024	We recommend the Council reviews its processes for identifying when income can be recognised in line with the CIPFA code and IFRS 15.
[5]	<b>Cut-off of capital additions</b> Our testing identified exceptions where capital expenditure had not been recognised in the correct financial year.	2024	We recommend the Council review its processes around the timing of the recognition of capital expenditure.
[6]	<b>Accuracy of accrued expenditure estimates</b> Our testing identified exceptions where estimates for accrued expenditure were inaccurate and did not have sufficient underlying basis or support.	2024	We recommend the Council perform a retrospective review of the estimation techniques used to see if improvements can be identified and applied in estimation of accrued expenditure in future years.
[7]	<b>Completeness of accrued expenditure</b> Our testing of post year end payments identified items which had not been appropriately accrued for.	2024	We recommend the Council reviews its process and the period over which it considered post year end payments and goods received to identify accrued expenditure at year end.
[8]	<b>NDR Appeals Provision methodology</b> Methodology for calculating the NDR 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.	2022	We recommend the Council should continue to re-assess the NNDR provision and ideally it should be based on the outcomes of decided cases.



# Control environment and findings (continued)

## Control deficiencies and areas for management focus

	Observation	Year first reported	Deloitte recommendation
[9]	<p><b>Historic arrangement between predecessor Councils</b></p> <p>It was identified that the long-term debtors balance included a historic lease balance between the West Dorset District Council and the Dorset County Council, which should have been eliminated when the Dorset Council Unitary Authority was formed.</p>	2024	We recommended the Council perform a review of its balances at year end to identify any outdated items that are no longer relevant and should be written out.
[10]	<p><b>Correction of classification of capital grants</b></p> <p>The Council was informed that the Rural 5G grant they had been accounting for as revenue should be treated as a capital grant by DCMS in a subsequent year. The Council's then corrected this through posting an adjustment through the CIES, whereas the correction should have been applied directly to the affected reserves.</p>	2024	The Council appropriately considered the impact of prior period error and appropriately made corrections to resolve the issue identified. We recommend that the Council reviews corrections of this nature in future to ensure that their impact is not distortive of the primary financial statements.
[11]	<p><b>Preparation and presentation of the PPE Note</b></p> <p>It was identified that downward revaluations resulting in unplanned depreciation were being recognised within accumulated depreciation rather than against the valuation of the asset in the year subsequent to the valuation being posted, resulting in an overstatement of the cost and equally in accumulated depreciation within the PPE note. Similarly, it was also identified that where assets that had been split into components, the Council's processing of valuation movements resulted in an overstatement the cost and equally in accumulated depreciation within the PPE note. These had no impact on the net book value of assets presented on the balance sheet.</p>	2024	The Council has already undertaken work to analyse and address the preparation of the PPE note. We recommended that it continues to review the process of preparing the note to ensure it is compliant with the CIPFA code and that it should review the componentisation policy and its application.

# Control environment and findings (continued)

## Control deficiencies and areas for management focus

	Observation	Year first reported	Deloitte recommendation
[12]	<b>Nil net book value assets</b> The Council holds a high value of nil net book value assets. This could indicate that disposals are not being captured correctly, or assets are being depreciated too aggressively.	2024	We recommended that the Council should review the fixed asset register to assess the nil net book value assets and consider the depreciation policy applied to assets.
[13]	<b>Review of capital expenditure</b> We have identified that the Council does not have a control that specifically considers whether expenditure items classified as capital have been correctly assessed as capital in nature. The Council does have mitigating controls around the approval and review of capital projects which would detect material errors.	2024	We recommended that The Council reviews its controls around the recognition of capital expenditure to assess whether the Council has sufficient assurance over the capitalisation of expenditure costs.
[14]	<b>Colfox school prior year adjustment</b> It was identified that the Colfox School had transferred to an academy in 2015. The Council had retained the asset value on its balance sheet, but the transfer to an Academy Trust should have resulted in the Council recognising a loss on disposal for the academy transfer in 2015/16.	2024	We recommend the Council reviews significant events and transactions and documents the assessed treatment and judgements applied.
[15]	<b>General insurance provision</b> We identified that the general insurance provision reflect the level of reserve held against the open claims at 31 March 2022, without considering the likelihood of the claims being successful.	2024	We recommend the Council reviews the population of claims at year end, assessing the likelihood of the success of the claims to determine the appropriate level of provision to report.

# Other significant findings

## Financial reporting findings

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

### Qualitative aspects of your accounting practices:

No issues have been noted.

### Other matters relevant to financial reporting:

No other matters relating to financial reporting.

### Significant matters discussed with management:

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

### 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.

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

# 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	<p>The Narrative Report is expected to address (as relevant to the Council):</p> <ul style="list-style-type: none"><li>• Organisational overview and external environment;</li><li>• Governance;</li><li>• Operational Model;</li><li>• Risks and opportunities;</li><li>• Strategy and resource allocation;</li><li>• Performance;</li><li>• Outlook; and</li><li>• Basis of preparation.</li></ul>	<p>We have assessed whether the Narrative Report has been prepared in accordance with CIPFA guidance and have concluded no issues.</p> <p>We have also read the Narrative Report for consistency with the annual accounts and our knowledge acquired during the course of performing the audit and we have concluded that it is not materially misleading.</p>
Annual Governance Statement	<p>The Annual Governance Statement reports that governance arrangements that provide assurance, are adequate and are operating effectively.</p>	<p>We have assessed whether the information given in the Annual Governance Statement meets the disclosure requirements set out in CIPFA/SOLACE guidance, is misleading, or is inconsistent with other information from our audit.</p> <p>We have no matters to report to the Committee.</p>

# 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**

Subject to the successful clearance of the outstanding areas on page 3 of the report, we expect to issue an unmodified audit opinion.



### **Going concern**

We have not identified a material uncertainty related to going concern and will report that we concur with management's use of the going concern basis of accounting.



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

There are no matters we judge to be of fundamental importance in the financial statements that we consider it necessary to draw attention to in an emphasis of matter paragraph.



### **Irregularities and fraud**

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

In doing so, we describe the procedures we performed in understanding the legal and regulatory framework and assessing compliance with relevant laws and regulations.

We discuss the areas identified where fraud may occur and any identified key audit matters relating to fraud.

# Audit quality and our system of quality management

## Our commitment to audit quality

Audit quality is at the heart of everything we do and our system of quality management (SQM) supports our execution of quality audits.

ISQM (UK) 1 sets out a firm's responsibilities to design, implement and operate a system of quality management for audits, reviews of financial statements, and other assurance or related services engagements.

The effective ongoing operation of ISQM (UK) 1 has been and remains a key element of Deloitte's global audit and assurance quality strategy and of the UK firm.

Deloitte UK performed its second annual evaluation of its system of quality management as of 31 May 2024. This evaluation was conducted in accordance with ISQM (UK) 1 and we concluded our SQM provides the firm with reasonable assurance that the objectives of the SQM are being achieved as of 31 May 2024.

For further details surrounding the conclusion on the operating effectiveness of the firm's SQM, including results of the monitoring activities performed, please refer to the disclosures within Appendix 5 of our publicly available [Transparency Report](#).



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

## 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 | 29 November 2024

# 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).

		Debit / (credit) income statement £m	Debit / (credit) in net assets £m	Debit / (credit) OCI/Equity £m
<b>Misstatements identified in current year</b>				
Application of valuer's revised UELs	[1]	(1.4)	1.4	-
Timing of Wimborne school disposal	[2]	-	-	-
Pension fund obligation – no allowance for Goodwin ruling	[3]	2.3	(2.3)	-
Pension assets understatement	[4]	-	3.0	(3.0)
AUC additions, overstatement of accrued expenditure	[5]	-	-	-
Infrastructure asset additions, cut-off of expenditure recognition	[6]	-	-	-
Testing of the accrued expenditure balance	[7]	(7.6)	7.6	-
Testing of post year end invoices – overstatement of accrued expenditure	[8]	(1.5)	1.5	-
Testing of post year end payments – understatement of accrued expenditure	[9]	4.0	(4.0)	-
Timing of income recognition for BattleLab capital grant	[10]	1.7	-	(1.7)
Timing of income recognition for DFT main capital grant	[11]	(2.2)	-	2.2
NNDR Appeals Provision	[12]	(1.9)	1.9	-
Dorchester Library, long-term debtor	[13]	3.4	(3.7)	0.3
Classification correction of the 5G Capital Grant	[14]	-	-	-
<b>Total</b>		<b>(3.2)</b>	<b>5.4</b>	<b>(2.2)</b>
General insurance provision	[15]	<b>(1.9)</b>	<b>1.9</b>	-

# Audit adjustments (continued)

## Unadjusted misstatements (continued)

[1] The valuer's revised useful economic lives were not applied to the revalued building assets following the 1 January 2022 revaluation, due to the Council receiving the valuer's report in September 2022. The impact is that depreciation has been overstated. We have assessed the total impact to be an overstatement of depreciation by £1.4m.

[2] The Wimborne school transferred to an Academy on 1 May 2021. This was processed by the Council as at year end, 31 March 2022, which resulted in an overstatement of 11 months depreciation expense of £0.8m, with a corresponding understatement of the loss on disposal of schools transferred to academies.

[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. Based on information that we have seen for other LGPS schemes, our actuaries have estimated that the cost would be around 0.1% of the defined benefit obligation, which is £2.3m.

[4] The pension fund auditor has informed us that the Pension Fund assets are understated by £8.0m. We have assessed the Council's share of the understatement to be £3.0m based on the Council's share of the pension fund assets as assessed by the Council's actuary (37%).

[5] We have tested a sample of Asset Under Construction additions and identified a cut-off error and an overstatement of accrued capital expenditure at year end with a total factual error of £0.1m which we have extrapolated over the total population to assess the total error of £1.2m.

[6] We have tested a sample of Infrastructure Asset additions and identified overstatement of accrued capital expenditure at year end with a total factual error of £0.2m which we have extrapolated over the total population to assess the total error of £5.9m.

[7] We have sample tested accrued expenditure recognised as at 31 March 2022, and have identified total factual overstatements of £1.9m which includes £0.9m over accrual in relation to the Decarbonisation accrual. We have extrapolated these errors over the total population to assess the total error of £7.6m.

[8] We have tested a sample of invoices processed post year end, and identified an overstatement of the accrued expenditure recognised at 31 March 2022. The factual errors identified were £0.3m which we have extrapolated over the total population to assess the total error of £1.5m.

[9] We have tested a sample of payments made post year end and have identified an understatement of the accrued expenditure recognised at 31 March 2022. The factual errors identified were £1.2m, which we have extrapolated over the total population to assess the total error of £4.0m.

# Audit adjustments (continued)

## Unadjusted misstatements (continued)

[10] Capital grant income recognised in 2021/22 in relation to BattleLab was overstated by £1.7m.

[11] Capital grant income recognised in 2021/22 in relation to the Department for Transport main capital grant was understated by £2.2m.

[12] 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, £1.9m less than the provision currently held by Dorset.

[13] The long-term debtor in relation to the Dorchester library is misstated as the arrangement was between the previous West Dorset District Council and Dorset County Council which no longer exist and have been replaced by Dorset Council.

[14] The Department for Culture, Media and Sport confirmed that the Council's 5G Rural Grant should be recognised as a capital grant. The Council has corrected the treatment for the grant in 2021/22, including the prior year income received. The correcting entries produced by the Council have resulted in an overstatement of capital grants and an understatement of gross income of £2.2m on the CIES for 2021/22.

[15] The Council recognises a general insurance provision of £1.9m to reflect the level of reserve held against the open claims at 31 March 2022, without considering the likelihood of the claims being successful. Therefore, we have assessed the level of provision disclosed is overstated. We have not been able to verify the actual settlements and nil value case closures for the cases held at 31 March 2022. We therefore conclude that we have an immaterial unquantifiable disagreement for the full balance.

# Audit adjustments (continued)

## Disclosures

### Disclosure misstatements

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	Summary of disclosure finding
Property, plant and equipment: Effective date of valuation	The Council's disclosure currently states that all land and building assets were valued in year. Our review, has identified that assets with a total current value of £4.9m were not valued in the current year.

# Audit adjustments (continued)

## Prior period adjustments

### Prior period misstatements restated in the current financial year

The following prior period adjustments have been identified and corrected as required by ISAs (UK).

Prior period adjustment	Description of the prior period adjustment	Amount (if applicable)
Colfox academy	<p>The Colfox academy was identified to have been transferred to an Academy Trust in 2015. The Council had retained the asset value on the balance sheet, but the transfer to an Academy Trust should have resulted in the Council recognising a loss on disposal for the academy transfer in 2015/16.</p> <p>The net book value of the asset at 1 April 2020 as held by the Council was £23.7m. The Council has corrected this, along with the 2020/21 in year transactions and disclosed the impact on the financial statements within the prior period adjustment note.</p>	£23.7m

# 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:

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## 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.

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## Fees

Details of proposed fees for audit and non-audit services performed for the period have been presented separately on the following page.

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## 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.

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# Independence and fees

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

	2021/22 Audit fee £	2020/21 Audit Fee £
Code audit fee – Council	180,000	180,000
Code audit fee – Pension Fund	21,123	21,213
<b>Total audit fees</b>	<b>201,123</b>	<b>201,123</b>
Teachers’ Pension certificate fees	7,000	4,000
<b>Total assurance fees</b>	<b>7,000</b>	<b>4,000</b>
<b>Total fees</b>	<b>208,123</b>	<b>205,123</b>

## Fee Variations

During the 2021/22 audit we have been required to complete additional procedures that are not taken into account in the scale fee of £180,000 above. These additional procedures include the additional work required to conclude on the prior year adjustment and the additional property valuation challenges as a result of the Council revaluing its whole portfolio of assets in year. Following the completion of the audit we will discuss the additional fee implications with the Executive Director – Corporate Development and report the fee proposal back to the Audit and Governance Committee.

# Our approach to quality

## FRC 2023/24 Audit Quality Inspection and Supervision report

Audit quality shapes our vision of the business we want to be, driving our priorities and defining our successes.

In July 2024, the Financial Reporting Council ("FRC") issued individual reports on each of the six 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 2023/24 cycle of reviews. We value the observations raised by both the FRC Supervision teams and the ICAEW Quality Assurance Department ("QAD"), both in identifying areas for improvement and also the ongoing focus on sharing good practice to drive further and continuous improvement.

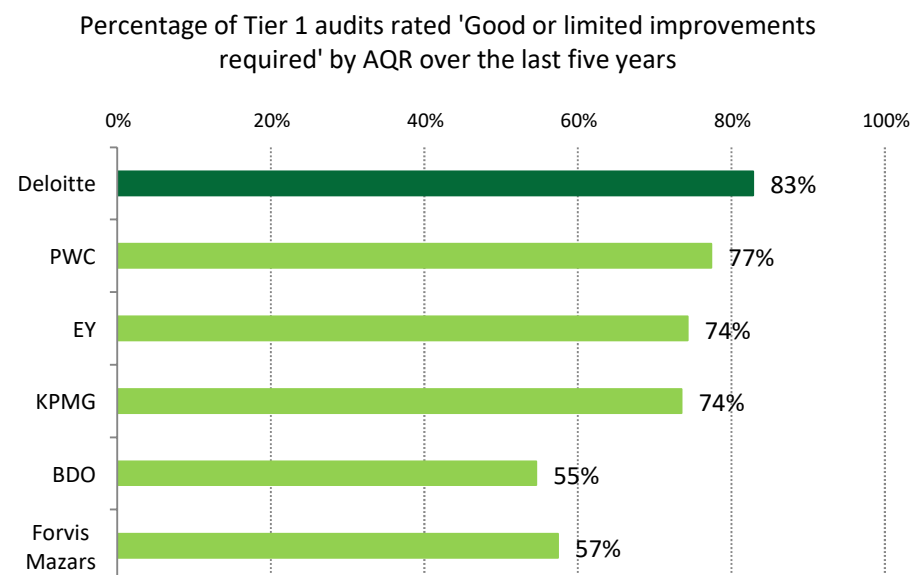
We are proud that the results of our FRC inspections show that 94% (2022/23: 82%) of our public interest audits were rated as 'good' or 'limited improvements' and that 100% (2023: 100%) of our audits reviewed by the ICAEW's QAD were assessed as good or generally acceptable.

These sets of results reflect the continuous investment we are making and our commitment to acting in the public interest to deliver confidence and trust in business through our high-quality audits. We recognise we still have more we want to do to ensure that we consistently meet the high standards we expect of ourselves. We take inspection, system of quality management ("SoQM") and supervision focus areas seriously and place a significant level of resource and effort into understanding how we continually improve going forward.

We are pleased to see the positive impact of actions taken over the last 12 months to address findings raised by the FRC. We have a reduction in the number of key findings and none of the AQR findings from the 22/23 inspection cycle have recurred as key findings in this year's cycle.

We welcome the breadth and depth of good practice points raised by the FRC and ICAEW, particularly in respect of effective group oversight, contract accounting and the challenge of management, where we have continued to take action to support the high-quality execution of audit work.

All the AQR public reports are available on the [FRC's website](#).





# Our approach to quality

## FRC 2023/24 Audit Quality Inspection and Supervision report - overall comments

The boxes below detail the FRC's overall comments and Deloitte responses as published in the overview page of the 23/24 public report.

### The AQR's 2023/24 Audit Quality Inspection and Supervision Report on Deloitte LLP:

"Deloitte has continued to respond positively to and has made good progress on actions to address our previous findings. This has resulted in improvements which are reflected across the audit inspections."

"The percentage of audits inspected by the FRC requiring no more than limited improvements was 94%, which shows a continued improvement on the prior year. The equivalent results for FTSE 350 audits inspected was 100%. One of the audits we inspected was found to require significant improvements. The findings that contributed most to this year's inspection results related to the audit of impairment assessments. We have previously identified key findings and examples of good practice in this audit area. The firm should review the effectiveness of its actions to ensure greater consistency."

The overall results profile for inspections by the ICAEW was 100% classified as good or generally acceptable. The firm's internal quality monitoring results show a year-on-year improvement."

### Deloitte response to Audit Quality Inspection key findings

"We are pleased to see the positive impact of actions taken over the last 12 months to address findings raised by the FRC. We have a reduction in the number of key findings and none of the AQR findings from the 22/23 inspection cycle have recurred as key findings in this year's cycle."

The following page sets out our response to key findings in relation to the 23/24 cycle.

### Review of the firm's system of quality management (SoQM):

"Deloitte has implemented ISQM (UK) 1, including monitoring and remediation processes, and completed its first annual evaluation of its SoQM. Deloitte has invested considerable effort into implementing its new system. The firm has already begun the iterative process of improving and refining it, including in response to our feedback. The firm needs to strengthen aspects of its SoQM, including certain elements of monitoring processes, and enhance its evidencing of its SoQM, especially its monitoring and annual evaluation processes."

### Deloitte response to review of SoQM

"Audit quality is always front and centre and we believe that an effective SoQM is crucial for its delivery. ISQM (UK) 1 implementation facilitated a critical assessment and enhancement of our existing SoQM. On 31 May 2023, we were pleased to be able to issue our first conclusion on the effectiveness of our SoQM, being satisfied that our SoQM provides the firm with reasonable assurance that the objectives of ISQM (UK) 1 are being achieved. We have valued the independent review performed by the FRC, and the further objective insights this has brought. We have already taken action to address the matters raised by the FRC, improving the evidencing of the rigour of our responses in areas of judgement and working to standardise the capture of risks and responses. The environment in which we operate continues to evolve, and we remain focussed on identifying and investing in the changes required to keep our SQM effective."

# 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 fraud risks in relation to the understatement of accruals, considering the completeness and accuracy of the balance, and the risk that expenditure is incorrectly recognised as capital expenditure for infrastructure assets and assets under construction. 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.

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.



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