Audit Findings (ISA 260) Report for Dorset Council

Year ended 31 March 2025

17 February 2026

Grant Thornton

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Dear Members of the Audit and Governance Committee

Audit Findings for Dorset Council for the 31 March 2025

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process and confirmation of auditor independence, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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We encourage you to read our transparency report which sets out how the firm complies with the requirements of the Audit Firm Governance Code and the steps we have taken to manage risk, quality and internal control particularly through our Quality Management Approach. The report includes information on the firm's processes and practices for quality control, for ensuring independence and objectivity, for partner remuneration, our governance, our international network arrangements and our core values, amongst other things. This report is available at transparency-report-2024-.pdf (grantthornton.co.uk).

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Julie Masci

Director
For Grant Thornton UK LLP

Contents

Headlines and status of the audit

Headlines

This page and the following summarises the key findings and other matters arising from the statutory audit of Dorset Council (the 'Authority') and the preparation of the Authority's financial statements for the year ended 31 March 2025 for the attention of those charged with governance.

Financial statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice (the 'Code'), we are required to report whether, in our opinion:

- the Authority's financial statements give a true and fair view of the financial position of the Authority and its income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially consistent with the financial statements and with our knowledge obtained during the audit, or otherwise whether this information appears to be materially misstated. However, due to the disclaimed opinion we are unable to provide assurance in this area.

Our audit work was carried out between July 2025 to February 2026. Our audit is substantially complete.

We have not identified any material changes to the financial statements. The following areas remain to be concluded:

- receipt of management representation letter; and
- review of the final set of financial statements

Our anticipated financial statements audit report opinion will be modified with a disclaimer of opinion, given the Authority's disclaimed opinions in previous years.

This is our second year of the audit engagement, and in our prior year Audit Findings Report, we made a number of recommendations for improvement. We have been pleased with the responsiveness and progress made officers in addressing the issues raised and would like to thank officers for their positive engagement in the audit process.

Headlines

Value for money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice (the 'Code'), we are required to consider whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are required to report in more detail on the Authority's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Authority's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance.

We have completed our VFM work and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report. We identified significant weaknesses in the Authority's arrangements and so are not satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The Dedicated Schools Grant (DSG) cumulative deficit rose to £95.63m, following an in year overspend of £37.3m. This was raised as a significant weakness in 2023/24 and given the continued deterioration in 2024/25 has remained a significant weakness this year.

Weaknesses were also identified in governance and securing economy, efficiency and effectiveness in the use of resources due to the significant findings identified through the Building Health and Safety investigations.

Our findings are set out in the value for money arrangements section of this report (page 59) and in our Auditors Annual Report.

Headlines

Statutory duties

The Local Audit and Accountability Act 2014 (the 'Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until:

- we have issued our opinion on the consistency of the pension fund financial statements of the Authority included in the Pension Fund Annual Report of Dorset Pension Fund with the pension fund financial statements included in the Statement of Accounts;
- we have completed the work necessary in relation to consolidation returns, including Whole of Government Accounts (WGA), and the National Audit Office (NAO) had concluded their work in respect of WGA for the year ended 31 March 2025

We are satisfied that this work does not have a material effect on the financial statements for the year ended 31 March 2025.

Significant matters

An investigation was undertaken during the audit period relating to works to ensure that the Council complied with building health and safety regulations. A review by the Council's internal auditors identified failures in procurement regulations, budget monitoring and contract management arrangements.

We have considered the impact on our audit process and obtained management's response to the outcomes of the investigation to understand the extent of impact on the financial statements. We also met with Dorset Police on 28 November 2025 to obtain the latest update on progress and scope of their ongoing inquiries.

We did not encounter any other significant difficulties or identify any significant matters arising during our audit.

Headlines

National context – audit backlog

Government proposals around the backstop

On 30 September 2024, the Accounts and Audit (Amendment) Regulations 2024 came into force. This legislation introduced a series of backstop dates for local authority audits. These Regulations required audited financial statements to be published by the following dates:

- For years ended 31 March 2025 by 27 February 2026
- For years ended 31 March 2026 by 31 January 2027
- For years ended 31 March 2027 by 30 November 2027

The statutory instrument is supported by the National Audit Office's (NAO) new Code of Audit Practice 2024. The backstop dates were introduced with the purpose of clearing the backlog of historic financial statements and enable to the reset of local audit. Where audit work is not complete, this will give rise to a disclaimer of opinion. This means the auditor has not been able to form an opinion on the financial statements.

Headlines

National context – local audit recovery

In the audit report for the year ended 31 March 2024, a disclaimer of opinion was issued due to the backstop legislation .

As a result, for 2024/25:

- we have limited assurance over the opening balances for 2024/25
- no assurance over the closing reserves balance also due to the uncertainty over their opening amount.

Our aim for the 2024/25 audit has been to continue with rebuilding assurance, therefore our focus has been on in-year transactions including income and expenditure, journals, capital accounting, payroll and remuneration and disclosures; and closing balances.

The areas on which we will be unable to conclude are the closing balance of property, plant and equipment, the net defined benefit liability and reserve balances.

On 5 June 2025 the National Audit Office (NAO) published its "Local Audit Reset and Recovery Implementation Guidance (LARRIG) 06" for auditors which sets out special considerations for rebuilding assurance for specified balances following backstop-related disclaimed audit opinions. The key messages outlined within this guidance include rebuilding assurance through:

- tailored risk assessment procedures for individual audit entities, including assessments over risk of material misstatements of opening balance figures and reserves;
- designing and performing specific substantive procedures, such as proof-in-total approach;
- special considerations for fraudulent reporting, property, plant & equipment, and pension related balances.

We will discuss with you our strategy for rebuilding assurance, in the light of this year's audit, as part of our planning for 2025/26.

Headlines

Implementation of IFRS 16

Implementation of IFRS 16 Leases became effective for local government bodies from 1 April 2024. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and replaces IAS 17. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

Local government accounts webinars were provided for our local government audit entities during March, covering the accounting requirements of IFRS 16. Additionally, CIPFA has published specific guidance for local authority practitioners to support the transition and implementation on IFRS 16.

Introduction

IFRS 16 updates the definition of a lease to:

- “a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.”

In the public sector the definition of a lease is expanded to include arrangements with nil consideration. This means that arrangements for the use of assets for little or no consideration (sometimes referred to as peppercorn rentals) are now included within the definition of a lease.

IFRS 16 requires the right of use asset and lease liability to be recognised on the balance sheet by the lessee, except where:

- leases of low value assets
- short-term leases (less than 12 months).

This is a change from the previous requirements under IAS 17 where operating leases were charged to expenditure.

The principles of IFRS 16 also apply to the accounting for PFI liabilities.

The changes for lessor accounting are less significant, with leases still categorised as operating or finance leases, but some changes when an authority is an intermediate lessor, or where assets are leased out for little or no consideration.

Impact on the Authority

On transition, the key focus is ensuring the completeness of leasing arrangements subject to IFRS 16. The Authority engaged additional resource to identify and review all its leasing arrangements, including those held at authority maintained schools. We were satisfied that the processes put in place are appropriate to ensure that arrangements are captured. The Authority did not have a material value of operating leases under IAS 17.

We reviewed whether:

- appropriate accounting policies and disclosures have been included in the financial statements
- the financial statements include a judgment in respect of the adoption of IFRS 16;
- management maintains a separate schedule of its right of use assets, which are then recognised in the financial statements; and
- management has adapted its systems and process to reflect the changes required by IFRS 16.

Headlines

Implementation of IFRS 16

The Authority identified £8.6m of commercial leases. We identified three errors in our testing. These related to a care home (value £4.2m) which was incorrectly recognised when a under lease had been granted for the effective life of the lease. One asset was recognised in opening balances when it was acquired during the year. The further error related to a calculation error. The total error in our testing was £4.4m.

The Authority has also recognised a number of assets on its balance sheet where only peppercorn leases payments were made, this has resulted in an increase in the value of assets recognised of £14.4m. These consist of a range of assets including school buildings, parcels of land and miscellaneous buildings. The Authority's valuer has provided appropriate valuations for these.

Inquiries identified that an authority maintained school, built on leased land had been historically omitted from the fixed asset register, with capital expenditure recognised as revenue under statute. The school has now been recognised in the financial statements, and a further review was undertaken, and no similar omissions were identified.

The adoption of IFRS 16 applies to the Authority's two PFI schemes, the impact has been an increase in the liability from the prior year of £10.7m.

The PFI adjustments were reviewed by our PFI team which identified an overstatement of £2.3m when compared with our calculation, resulting from the use of the opening liability based upon the 24/25 unitary charge rather than the 2023/4 closing position to calculate the transition adjustment. This is reported as an unadjusted misstatement.

Materiality

Our approach to materiality

As communicated in our Audit Plan dated June 2025, we determined materiality at the planning stage as £19.2 million based on 2% of prior year gross expenditure. At year-end, we have reconsidered planning materiality based on the draft financial statements. Materiality was updated to £21 million reflecting draft expenditure in the current year.

A recap of our approach to determining materiality is set out below.

Basis for our determination of materiality

- We have determined materiality at £21m based on professional judgement in the context of our knowledge of the Authority, including consideration of factors such as the Authority's operating environment and our increased understanding of the entity, this being our second year of appointment.
- We have used 2% of gross expenditure as the basis for determining materiality.
- The benchmark and materiality percentage applied reflect industry standard.
- Materiality has increased from the prior year reflecting an increase in the Council's expenditure and an increase in the percentage used to calculate materiality as a result of our growing familiarity with the Council and an increase in the benchmarks used across the sector.

Performance materiality

- We have determined performance materiality at £13.65m, this is based on 65% of headline materiality.
- We have revised the performance materiality due to the actual gross expenditure changing significantly from that anticipated at the planning stage resulting in a review of the appropriateness of the materiality figure.

Specific materiality

- We have determined a lower materiality of £20k, for senior officer's remuneration reflecting the public interest in these disclosures.

Reporting threshold

- We will report to you all misstatements identified in excess of £1.05m, in addition to any matters considered to be qualitatively material.

Our approach to materiality

A summary of our approach to determining materiality is set out below.

	Authority (£)	Qualitative factors considered
Materiality for the financial statements	21m	This was set at 2% of the Council's gross expenditure.
Performance materiality	13.65m	This is set at 65% of materiality and based on the level of deficiencies in control environment in prior years.
Specific materiality for senior officers' remuneration disclosures	20,000	Due to enhanced public interest.
Reporting threshold	1.05m	Based on 5% of materiality.

Overview of significant risks identified

Overview of audit risks

The below table summarises the significant and other risks discussed in more detail on the subsequent pages.

Significant risks are defined by ISAs (UK) as an identified risk of material misstatement for which the assessment of inherent risk is close to the upper end of the spectrum due to the degree to which risk factors affect the combination of the likelihood of a misstatement occurring and the magnitude of the potential misstatement if that misstatement occurs.

Other risks are, in the auditor's judgement, those where the risk of material misstatement is lower than that for a significant risk, but they are nonetheless an area of focus for our audit.

Risk title	Risk level	Change in risk since Audit Plan	Fraud risk	Level of judgement or estimation uncertainty	Status of work
Risk 1 Management override of controls	Significant	↔	✓	Low	●
Risk 2 Valuation of land and buildings	Significant	↔	✗	Medium	●
Risk 3 Valuation of the defined benefit pension liability	Significant	↔	✗	Medium	●
Implementation of IFRS 16	Other	↓	✗	Medium	●

↑ Assessed risk increase since Audit Plan
↔ Assessed risk consistent with Audit Plan
↓ Assessed risk decrease since Audit Plan

● Not likely to result in material adjustment or change to disclosures within the financial statements
● Potential to result in material adjustment or significant change to disclosures within the financial statements
● Likely to result in material adjustment or significant change to disclosures within the financial statements

Significant risks

Risk identified	Audit procedures performed	Key observations
Management override of controls Under ISA (UK) 240, there is a non-rebuttable presumption that the risk of management override of controls is present in all entities. We have therefore identified management override of controls, in particular journals, management estimates and transactions outside the course of business as a significant risk of material misstatement.	We have: • evaluated the design and implementation of management controls over journals; • analysed the journals listing and determined the criteria for selecting high risk unusual journals; • identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration; and • gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness.	Our review of the Council's IT system in the prior year and followed up in the current year, identified three deficiencies which impacted on our testing of journal entries. The risk rating in relation to journal testing was increased resulting in a larger number of journals being tested in addition to targeted tests covering the significant deficiency identified, as set out below: – Users with inappropriate access to ABAP debugger in production; – Segregation of duties conflict as developers have access to production - We investigated all developers with access to production and noted that none posted or processed journals in the SAP system during the year; and – Users with inappropriate access to maintain all SAP Standard or Customised tables in production. Our audit work on journals identified that there is automatic self-approval on journal entries below £50k. The lack of second user authorisation creates a risk that journals could be posted erroneously or fraudulently. This deficiency was identified in our previous audit, and the Council has implemented a further control requiring a review of these journals to be undertaken. The timeliness and manual nature of this control does not fully mitigate the risk identified. We tested a total of 88 journals, and no issues were identified from this work. We also reviewed reports relating to the issues identified in the building health and safety department to consider whether former officers identified in that report had posted journals during the year. None were identified from this review. Our work on significant estimates is reported on pages 29 to 35.

Significant risks

Risk identified	Key observations
Presumed risk of fraud in revenue recognition Under ISA (UK) 240, there is a rebuttable presumed risk of material misstatement due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud related to revenue recognition.	We have considered the risk factors set out in ISA 240 and the nature of the revenue streams at Dorset Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted. We have considered the findings of the Authority's investigations into the significant control issues identified. Given the nature of the matters highlighted which relate to lack of oversight of expenditure controls and the nature of Authority's income streams, we conclude that: • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Dorset Council, mean that all forms of fraud are seen as unacceptable. We therefore do not consider this to be a significant risk for Dorset Council and no findings from our audit meant that we were required to reconsider this risk.

Significant risks

Risk identified	Audit procedures performed	Key observations
Presumed risk of fraud in expenditure recognition Practice note 10: Audit of financial statements of Public Sector Bodies in the United Kingdom (PN10) states that the risk of material misstatement due to fraud related to expenditure may be greater than the risk of material misstatement due to fraud related to revenue recognition for public sector bodies. We have identified and completed a risk assessment of all expenditure streams for the Council. We have considered the risk that expenditure may be misstated due to the improper recognition of expenditure for all expenditure streams and concluded that there is not a significant risk. As a result of the investigations in the building health and safety team, we have reassessed the risk of fraud in expenditure relating to this area and sought assurances from the Authority to determine whether issue is confined to this department or a wider issue.	As a result of the investigations in the building health and safety team, we have reassessed the risk of fraud in expenditure relating to this area and sought assurances from the Authority to determine whether issue is confined to this department or a wider issue. Although significant failings in the control environment have been identified as a result of Authority's investigations, we do not consider that these would result in a material misstatement to the financial statements. This is due to the total spend in the area of review being immaterial and the failures resulted in inadequate procurement and monitoring arrangements rather than an intention manipulation to the reported results of the Authority by management.	We do not consider this to be a significant risk for the audit of the Authority, given materiality and the nature of the issues identified. Our detailed audit testing on journals, operating expenditure, capital additions and Revenue expenditure funded from capital under statute (REFCUS) were subject to a heightened level of scepticism in light of the investigation findings. Our testing did not identify any additional matters to bring to your attention.

Significant risks

Risk identified	Audit procedures performed	Key observations
Valuation of land and buildings The Authority re-values its land and buildings on a rolling basis to ensure that carrying value is not materially different from current value. This represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value of assets not revalued, as at 31 March 2025, in the Authority's financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used. We identified the valuation of land and buildings, particularly the assumptions used by the valuer in calculating the revaluations, as a significant risk.	We have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts, and the scope of their work; • challenged managements classification of assets as land and buildings rather than investment property. • evaluated the competence, capabilities and objectivity of the valuation experts; • written to the valuers to confirm the basis on which the valuation was carried out; • evaluated the reasonableness of the assumptions made by the valuers in determining the valuations; • challenged the information and assumptions used by the valuers to assess completeness and consistency with our understanding; • tested revaluations made during the year to see if they have been input correctly to the Authority's asset register; and • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.	We identified nine valuations where the movements, although not significant in terms of our materiality are larger than we would expect. Management does require valuers to provide an explanation for changes in valuations since the asset was last valued, however due to the change in valuer, movements have not been appropriately explained or followed up. We have undertaken further reviews of assets with significant or unusual movements and instructed our own valuation experts to assess the reasonableness of the valuation methods used. We are satisfied that valuations are appropriate. The audit opinion for 2022/23 is disclaimed, this means that as no audit work was carried out on the opening balances of the valuation of other land and buildings, we are unable to gain assurance that they are not materially misstated. Other land and buildings are revalued in full over a four year cycle therefore full assurance will likely be obtained in 2027/28. At this date we will be able to gain assurance over the opening and closing balances in addition to in-year movements.

Significant risks

Risk identified	Audit procedures performed	Key observations
Valuation of the net pension liability The Authority's share of the pension fund net liability, as reflected in its Balance Sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£73.4m in the Authority's Balance Sheet at 31 March 2025) and the sensitivity of the estimate to changes in key assumptions. The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code. We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation. (continued on following page)	We have: • documented our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluated the instructions issued by management to their management expert (actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • considered the confirmation from the actuary that the asset ceiling does not apply to the Authority; • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (using our auditor's expert) and performing any additional procedures suggested by our expert; and • Requested and received assurances from the auditor of Dorset Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.	The audit of Dorset Pension Fund identified two errors relating to the valuation of assets in the pension fund. The Authority's share of this understatement was £1.47 million and is reported as an unadjusted misstatement. The error arose due to the requirement to complete the pension fund accounts to meet the statutory deadline. Other than the above unadjusted error, we have not identified any issues from our work. The audit opinion for 2022/23 is disclaimed, this means that as no audit work was carried out on the opening balances of the valuation of the net defined benefit liability, we are unable to gain assurance that they are not materially misstated.

Significant risks

Risk identified	Key observations
Valuation of net pension liability (continued) The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable. The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount and inflation rates, where our consulting actuary has indicated that a 0.1% change in these two assumptions would have approximately 1.4% effect on the liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in the calculation. With regard to these assumptions, we have therefore identified valuation of the Authority's net pension liability as a significant risk.	

Other findings

Other areas impacting the audit

Issue	Commentary
IFRS 16 implementation The adoption of IFRS 16 is required for local government authorities at 1 April 2024. We would expect audited bodies to disclose the implementation of the new accounting standard requirements, the nature of the changes in accounting policy for leases, along with the impact of IFRS 16 on transition.	We have: • evaluated the policies and controls implemented by management to ensure complete and accurate accounting for and reporting of IFRS 16-related balances; • assessed the appropriateness of management's judgments in identifying low-value leases in accordance with the Authority’s capitalisation policy; • reviewed existing lease terms to determine their support for the calculation of associated lease liabilities; • reviewed and tested the recognition of right of use assets and lease liabilities; • evaluated the Authority's accounting treatment of existing leases as a lessee; • assessed the competence, capabilities, and objectivity of the valuation experts engaged by management, to value peppercorn leases; and • evaluated management’s processes, instructions issued to valuation experts, and the scope of work agreed with the experts. We have reported our findings on page 11.

Other areas impacting the audit

Issue	Commentary	
IT Control deficiencies	A separate report detailing the deficiencies identified through our review of the Council's IT systems was discussed at the Audit and Governance Committee on 24 September 2025. Two significant deficiencies were identified: One relates to users with inappropriate access to ABAP debugger in production. This deficiency related to the SAP system. ABAP debugger is used for performing debugging functions such as inserting a code to correct any errors in the source code. Users are therefore able to execute unauthorised transactions through these amendments to code. Secondly, we identified a lack of oversight over third-party users assigned privileged systems access in UPM.	**Auditor view** We have presented a full report on the Audit and Governance Committee in September.

Other findings – significant matters

Issue	Commentary
Significant events or transactions that occurred during the year	Issues identified by the Authority in relation to building health and safety works have resulted in additional work being required to determine the impact on audit procedures. Our work in this area is reported on page 38.
Business conditions affecting the Authority, and business plans and strategies that may affect the risks of material misstatement	No matters identified
Concerns about management's consultations with other accountants on accounting or auditing matters	No matters identified
Discussions or correspondence with management in connection with the initial or recurring appointment of the auditor regarding accounting practices, the application of auditing standards, or fees for audit or other services	No matters identified
Significant matters on which there was disagreement with management, except for initial differences of opinion because of incomplete facts or preliminary information that are later resolved by the auditor obtaining additional relevant facts or information	No matters identified
Other matters that are significant to the oversight of the financial reporting process	No matters identified

Other findings – accounting policies

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	The revenue recognition policies included within the financial statements are appropriate and in accordance with the Code.	No matters to report.	● Black
Expenditure recognition	The expenditure recognition policies included within the financial statements are appropriate and in accordance with the Code.	No matters to report.	● Black
Valuation methods	Valuation methods are appropriate and in accordance with the Code.	No matters to report.	● Black
Other critical policies	We note that the Authority has reviewed its accounting policies and removed a number of immaterial policies. A small number of revisions have been made to better reflect the requirements of the Code.	No matters to report.	● Black

Assessment:
- ● Red = Marginal accounting policy which could potentially be open to challenge by regulators
- ● Amber = Accounting policy appropriate but scope for improved disclosure
- ● Green = Accounting policy appropriate and disclosures sufficient
- ● Black = No overall conclusion formed as our opinion has been disclaimed

Other findings – key judgements and estimates

This section provides commentary on key estimates and judgements in line with the enhanced requirements for auditors.

Assessment:

- [Red] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Amber] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Green] We consider management's process is appropriate and key assumptions are neither optimistic or cautious
- [Black] Due to the backstopped 2022/23 opinion, we are unable provide assurance that the balance is not misstated.

Key judgement or estimate	Summary of management's approach	Auditor commentary	Assessment
Valuation of land and buildings £496m at 31 March 2025	The Authority re-values its land and buildings on a rolling basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. The Authority has consolidated its valuation process and has reduced the number of valuers engaged from five to two and appointed a new valuation expert for its land and buildings assets other than farms. (continued)	We have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts, and the scope of their work; • evaluated the competence, capabilities and objectivity of the valuation experts; • written to the valuers to confirm the basis on which the valuation was carried out; • evaluated the reasonableness of the assumptions made by the valuers in determining the valuations; • challenged the information and assumptions used by the valuers to assess completeness and consistency with our understanding and published indices; • tested revaluations made during the year to see if they have been input correctly to the Authority's asset register; and (continued)	Black

Other findings – key judgements and estimates

Key judgement or estimate	Summary of management's approach	Auditor commentary	Assessment
Valuation of land and buildings £496m at 31 March 2025	Additionally, management will need to ensure the carrying value of assets not revalued, as at 31 March 2025, in the financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used. We identified the valuation of land and buildings, particularly the assumptions used by the valuer in calculating the revaluations, as a significant risk. The total year end valuation of land and buildings was £496m, a net increase of £11m from 2023/24 (£485m).	• evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end. As reported on page 21, the change in the Authority's main valuer has resulted in a number of unexpected movements in valuations. We have also identified one instance where the values of land and buildings were transposed between the valuer's summary sheet and detailed calculations. Although this will not impact on the current year, it will result in distortions to the calculation of depreciation and revaluation adjustments in future years if not corrected. Management requested that the valuer review and reissue the report to correct this issue and ensure that the instance is isolated, with no further issues identified. Although management has undertaken an assessment of assets not revalued at the year end, the indices used are not, in our view appropriate. We have undertaken our own review and are satisfied that there is no material issue. We have raised this recommendation in the prior year and have followed up on page 56. The audit opinion for 2022/23 was disclaimed, this means that as no audit work was carried out on the prior year opening balances of land and buildings and surplus assets, we are unable to gain assurance that they are not materially misstated. The Authority undertakes valuations of all its land and buildings and surplus assets in a four-year cycle. This means that assurance can be regained and this will likely be possible at the end of the revaluation cycle, currently planned for 2027/28, accelerating this programme would enable assurance to be gained sooner. For the 2024/25 financial statements we cannot provide assurance over the closing property, plant and equipment balance.	Black

Other findings – key judgements and estimates

Key judgement or estimate	Summary of management's approach	Auditor commentary	Assessment
Valuation of net pension liability £73m at 31 March 2025	The Authority's net pension liability at 31 March 2025 is £73m (PY £159m) comprising the Dorset Pension Fund Local Government and unfunded defined benefit pension scheme obligations. The Authority uses Barnett Waddingham to provide actuarial valuations of the Authority's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2023. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £77m net actuarial gain during 2024/25. (continued)	We have: • documented our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluated the instructions issued by management to their management expert (actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • considered the confirmation from the actuary that the asset ceiling does not apply to the Authority; • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; (continued)	Black

Other findings – key judgements and estimates

Key judgement or estimate	Auditor commentary	Assessment
	• undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (using our auditor's expert) and performing any additional procedures suggested by our expert; and • requested assurances from the auditor of Dorset Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. The audit opinion for 2022/23 was disclaimed, this means that as no audit work was carried out on the prior year opening balances of the net defined benefit liability, we are unable to gain assurance that they are not materially misstated. The nature of the pension fund balances are such that full assurance will likely be obtained in 2025/26,At this date we will be able to gain assurance over the opening and closing balances in addition to in-year movements. (continued)	Black

Other findings – key judgements and estimates

Key judgement or estimate | **Assessment**

Black

Assumption	Actuary value	PwC range	Assessment
Discount rate	5.8%	5.6% to 5.95%	Reasonable
Pension increase rate	2.9%	2.85% to 2.95%	Reasonable
Salary growth	3.9%	0.5% to 2.5% p.a. above CPI inflation	Reasonable
Life expectancy – Males currently aged 45/65	23.1 21.8	20.6-23.1 19.2-21.8	Reasonable
Life expectancy – Females currently aged 45/65	25.4 24.0	21.1-25.7 22.7-24.3	Reasonable

Other findings – key judgements and estimates

Key judgement or estimate	Summary of management's approach	Auditor commentary	Assessment
Minimum revenue provision £12.7m in 2024/25	The Authority is responsible on an annual basis for determining the amount charged for the repayment of debt known as its minimum revenue provision (MRP). The basis for the charge is set out in regulations and statutory guidance. The Authority commissioned its treasury advisors to prepare a review of MRP to ensure it aligns with the current guidance. This has resulted change in the method for charging MRP in the financial statements. The Council's previous approach was to charge a flat rate of 4% on its pre 2008 capital financing requirement and continued this approach post 2008 spend. The Authority has changed its approach for post-2008 capital financing requirement moving to a 40 year period on an annuity basis The approach adopted by the Authority is in accordance with the MHLCG guidance. The year end MRP charge was £16.4m, a net decrease of £3.7m from 2023/24. This represents a 2.93% charge against the general fund capital financing requirement (CFR).	The revised policy is less prudent than the Authority's previous approach and results in a lower charge • MRP has been calculated in line with the statutory guidance • the Authority's policy on MRP complies with statutory guidance; • the change to the MRP policy was agreed by full Council on 25 March 2025. We risk rate the level of MRP charged by Council's and consider that a charge of 2% of the capital financing requirement (CFR) to be the most prudent approach. The Council's MRP is comfortably in excess of this. New statutory guidance takes full effect from April 2025, introducing new provisions for capital loans. This guidance also clarifies the practices that authorities should already be following. This guidance clarifies that capital receipts may not be used in place of a prudent MRP and that MRP should be applied to all unfinanced capital expenditure and that certain assets should not be omitted from the calculation unless exempted by statute.	Black

Other findings – key judgements and estimates

Summary of management's approach	Auditor commentary	Assessment
The Authority considers the following to be key judgements and estimates: • Accounting for the better care fund • Assessment of the requirement for group accounts • Accounting for leases under IFRS 16 • Estimation uncertainty relates to the valuation of the net defined benefit pension liability and land and building valuations	The items described are reasonable in the context of the Authority's activities.	Black

2. Financial Statements: Information Technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas. We discussed our detailed findings at the Audit and Governance Committee in August 2025. Due to level of control weaknesses identified, additional testing was required through our journals work.

			ITGC control area rating				
IT application	**Level of assessment performed**	**Overall ITGC rating**	**Security management**	**Technology acquisition, development and maintenance**	**Technology infrastructure**	**Related significant risks/other risks**	**Additional procedures carried out to address risks arising from our findings**
SAP	Detailed ITGC assessment (design effectiveness only)	🔴	🔴	🟡	⚫	Yes	Additional testing undertaken in our work on journals
Capita	Detailed ITGC assessment (design effectiveness only)	🔴	🟢	🔴	⚫	No	N/A
UPM	Detailed ITGC assessment (design effectiveness only)	🔴	🔴	🔴	⚫	N/A	N/A
Active Directory	Detailed ITGC assessment (design effectiveness only)	🔴	🔴	⚫	⚫	N/A	N/A

Assessment

- 🔴 Significant deficiencies identified in IT controls relevant to the audit of financial statements
- 🟡 Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
- 🟢 IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
- ⚫ Not in scope for testing

Communication requirements and other responsibilities

Other communication requirements

Issue	Commentary
Matters in relation to fraud	• An investigation was undertaken during the audit period relating to works to ensure that the Council complied with building health and safety regulations. A review by the Council's internal auditors identified failures in procurement regulations, budget monitoring and contract management arrangements. We have considered the impact on our audit process and obtained management's response to the outcomes of the investigation to understand the extent of impact on the financial statements. We also met with Dorset Police on 28 November 2025 to obtain the latest update on progress and scope of their ongoing inquiries. • Our detailed audit testing on journals, operating expenditure, capital additions and Revenue expenditure funded from capital under statute (REFCUS) were subject to a heightened level of scepticism in light of the investigation findings. Our testing did not identify any additional matters to bring to your attention.
Matters in relation to related parties	• We are not aware of any related parties or related party transactions which have not been disclosed
Matters in relation to laws and regulations	• We are not aware of any significant incidences of non-compliance
Written representations	• Representations will be requested from management in respect of the significant assumptions used in making accounting estimates for the defined benefit pension liability and land and buildings valuations. • This will be provided with our final Audit Findings Report.

Other communication requirements

Issue	Commentary
Confirmation requests from third parties	• We requested from management permission to send confirmation requests to the Authority's banking and treasury partners. This permission was granted and the requests were sent. All were returned with positive confirmation.
Disclosures	• Our review found no material omissions in the financial statements.
Audit evidence and explanations	• All information and explanations requested from management was provided.
Significant difficulties	• We did not encounter any significant difficulties.
Other matters	• No other matters to disclose.

Other responsibilities

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2024). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • The use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • For many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Authority's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. (continued)

Other responsibilities

Issue	Commentary
Going concern	Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Authority meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Authority and the environment in which it operates • the Authority's financial reporting framework • the Authority's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. However, as this year's audit will be disclaimed, we have not been able to obtain sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Other responsibilities

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and the Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. Because of the significance of the matter described in the basis for disclaimer of opinion section of our report, we have been unable to consider whether the Annual Governance Statement does not comply with 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported significant weaknesses. We have nothing to report on these matters except we identified significant weaknesses in respect of arrangements to deliver value for money, see page 60.

Other responsibilities

Issue	Commentary
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. Note that work is not required as the Authority does not exceed the threshold.
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2024/25 audit of Dorset Council in the audit report, due to: • completion of the whole of government accounts work and receiving confirmation from the National Audit Office: and • Issuing our opinion on the consistency of the pension fund financial statements of the Authority included in the Pension Fund Annual Report of Dorset Pension Fund with the pension fund financial statements included in the Statement of Accounts

Audit adjustments

Audit adjustments

We are required to report all non-trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below, along with the impact on the key statements.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £'000	Impact on general fund £'000
CIES: Other recognised gains and losses were overstated by £14,438k (i.e. Right of use asset opening balance adjustment). The Authority should have had a separate line in the MIRS showing the IFRS 16 adjustment on the 1 April 2024, instead of including it in the CIES	14,438	nil	nil	nil
Balance sheet: cash at bank was overstated by £5,579K, creditors was overstated by £5,229K and debtors (accrued income) was overstated by £350k. This was due to the incorrect treatment of schools' expenditure, which was caused by delays in receiving returns from one school due to staff shortages. Cash at bank and creditors were both overstated by £5.3m.				
Overall impact of current year unadjusted misstatements	(14,448)	14, 438	0	0

Audit adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified to date during the audit which have been made in the final set of financial statements.

Disclosure	Misclassification or change identified	Adjusted?
Balance sheet	The lease liability has been reclassified to transfer £1.3m to short term creditors.	✓
Accounting standards issued but not yet adopted – Note 1	The note has been amended to tailor for the circumstances of the Council.	✓
Related Parties – Note 2	Management has reported fully on all transactions with connected parties. Not all reported transactions fully meet the definition of a related party under IAS 24. Management's view is that the manner of reporting provides full transparency to the user.	X
Financial instruments – Note 3	Two presentational changes were made to correct disclose the fair value hierarchy for leases and PFI liabilities and to disclose that there has been no movement between categories during the year.	✓
Note 11 and note 25 - PFI Remeasurement	Inconsistencies were noted in presentation of IFRS 16 adjustments between the property, plant and equipment and capital financing notes. These were presentational only.	✓
Note 12 Council as lessee - operating lease receivables	Testing identified that the lease information used to populate this note was not kept up to date resulting in the total unadjusted sampling error of £7.9 million.	X
Note 13 - Revenue from Contracts with Service Recipients	We identified a difference of £6.3 million between the working papers to support this note and the value disclosed in the financial statements. This is a reanalysis disclosure error only.	✓
Property, plant and equipment – Note 21	There was an error in disclosing the valuation dates within the note.	✓

Audit adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified to date during the audit which have been made in the final set of financial statements.

Disclosure	Misclassification or change identified	Adjusted?
Property, plant and equipment – Note 21	Testing identified that a school built by the Authority on leased land had been omitted previously from the fixed asset register and land and buildings balance. It was recognised as a right of use asset in the current year. The total value was £3.7 million and is incorrectly classified as a right of use asset within the note.	X
Capital Financing – Note 25	The note omitted to include £3.5m of PFI asset additions.	✓
Capital adjustment account – Note 37	The capital adjustment account has been amended to reflect the impact of the first-time recognition of peppercorn leases and PFI adjustments as an opening balance adjustment.	✓
Annual Governance Statement	The Annual Governance Statement has been updated to reflect progress towards addressing internal audit findings in respect of procurement compliance.	✓
Throughout	A number of typographical errors and minor changes have been made to the financial statements.	✓

Audit adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the audit which have not been made within the final set of financial statements. The Audit and Governance Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £'000	Impact on general fund £'000
The audit of Dorset Pension Fund identified two understatement errors relating to the differences in asset valuations arising from timing differences due to the necessity to meet completion deadlines for the financial statements.	(1,480)	1,480	nil	nil
Overstatement of commercial right of use assets. This results in property, plant and equipment being overstated by £4.4 million with lease liabilities being similarly overstated.				
Overstatement of the PFI liability due to the transition adjustment being based on the 2024/25 unitary charge. This has no impact on the general fund with streetlighting infrastructure assets being overstated by £936k with an equal overstatement of PFI liability. As the Sir John Colfox school is an academy the overstatement of £1.3m is reflected in the Capital Adjustment accounts in addition to the PFI liability.				
Overall impact of current year unadjusted misstatements	**(1,480)**	**1,480**	**nil**	**nil**

Action plan

We set out here our recommendations for the Authority which we have identified as a result of issues identified during our audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards. We presented our IT Audit findings report to the Committee in August 2025. This report highlighted a significant deficiency, which resulted in additional journal testing being required.

Assessment	Issue and risk	Recommendations
● Medium	**Income and debtor recognition** The Authority engages a property management agent to handle the management and rent collection for a number of its commercial properties. It was identified that remittances and reconciliations were monitored on a cash basis which does not recognise accrued rental income or debtors in the financial statements. There is a risk that income and debtors are both understated in the financial statements.	We recommend that management implements processes to ensure the completeness of the reporting of income from its rental portfolio. **Management response** We are implementing new processes to ensure completeness of the reporting of income from the rental portfolio.

Action plan

Assessment	Issue and risk	Recommendations
● Medium	**Treatment of leases** Our testing of the changes arising from the adoption of IFRS 16, identified a number of errors including the historic incorrect recognition of one school, incorrect lease recognition and trivial differences due incorrect rental figures used. Although the overall error is immaterial. Testing of the disclosures for future income receivable by the Authority as lessor, identified a number of errors due to incorrect rental values and lease terms used. Management has reviewed a number of the lease arrangements, and testing has identified that there is not a risk of material misstatement in the remaining population.	We recommend that management reviews its leasing records and ensures that these are correct and are updated on a regular basis. **Management response** Management acknowledges the audit findings relating to lease receivables. The issues identified arise during a period of significant planned improvement within Assets & Property, which includes ongoing data cleansing and alignment of lease and asset records across the Council's financial and property systems. These activities form part of the service's 12-month-plus Improvement Plan, which is designed to establish strong, long-term foundations for continuous improvement. Internal Audit has recently reviewed progress against the plan and issued Substantial Assurance with no management actions, providing independent confirmation that the work underway is appropriate and strengthening controls. The recent restructure also increases capacity within Estate Management, enabling improved lease administration and management as well as enhanced data quality. New commissioned estate management arrangements will further support this, bringing in specialist expertise, improving the timeliness and consistency of lease activity, and ensuring that assets are actively managed to maximise value. These arrangements will also include clear requirements for accurate data and robust information sharing, ensuring the Council continues to hold reliable and up-to-date lease records. We are confident that the improvement work already in train will address the matters raised and ensure sustainable improvements in the accuracy of lease records.

Action plan

Assessment	Issue and risk	Recommendations
● Low	**Nil net book value assets** In the prior year we recommended that management undertake a review of its fixed asset register to identify assets with a nil net book value (fully depreciated) and carry out a stocktake to ensure that these assets were still in use by the authority. Due to the timing of our recommendation, this work has been carried out during the current year and not reflected in the financial statements under review. The exercise is substantially complete and identified that of the £74m of vehicles, furniture and equipment assets, £52m were fully depreciated. Of these, management has ascertained that 52% of these assets were confirmed to have been disposed of or could not be located. Although there is no impact on the balance sheet, cost and accumulated depreciation will be overstated in the property, plant and equipment note. We also identified that the fixed asset register contains £12.9m of refuse bins. Due to the nature of these assets, it is not possible to determine how many of these bins remain in use. While bins are typically replaced when damaged or lost, some from the original population are likely still in service. Purchases of new bins are capitalised resulting in an increasing large value within the register.	We recommend that management ensures that it regularly reviews its assets and removes assets no longer in use from its fixed asset register. We also recommend that management implements a policy to write out refuse bins at the end of the assigned life. **Management response** A new review process has been put in place for each group of assets to ensure that where they have been fully depreciated, checks are undertaken to confirm whether they have been disposed of or whether they are still in use.

Action plan

Assessment	Issue and risk	Recommendations
● Low	**Negative asset values** Testing identified a trivial value of assets in the fixed asset register with negative useful economic lives and relate to incorrect postings being made to transfer assets under construction to operational assets.	We recommend that management reviews the fixed asset register to correct anomalous entries. **Management response** Additional controls have been put in place to identify any assets with negative asset values so the records can be corrected at that time.
● Low	**Policy for time in lieu (TOIL)** Our testing of exit packages, identified an individual who had accrued 260 hours of TOIL, which was paid on their departure from the Authority.	We recommend that management ensures that it has a policy to prevent excessive TOIL being accrued and to ensure that any required instances are subject to approval. **Management response** There is clear guidance on the use of TOIL available on the Council's intranet. In response to the audit finding a reminder will be issued to reinforce expectations of both staff and managers.

Key

- ● High – Significant effect on control system and/or financial statements
- ● Medium – Limited impact on control system and/or financial statements
- ● Low – Best practice for control systems and financial statements

Follow up of prior year recommendations

Issue and risk	Commentary
Fixed asset register The Council uses its accounting system SAP, for the maintenance of its fixed asset register (FAR). Our review identified that it is not being used optimally to produce correct figures within the financial statements. Assets subject to a downward revaluation where such movements cannot be charged to the revaluation reserve due to an insufficient balance are charged to the income statement. It is appropriate for a note to be retained of these movements to enable future upward movements to be credited to the income statement. The FAR is being maintained in such a way that results in an overstatement of the cost/valuation line of note 22 and an overstatement of accumulated depreciation (referred to as unplanned depreciation). This has resulted in note 22 being materially misstated in both the current and prior year, although the net book value of PPE assets in the balance sheet is correct. The Council should review its use of the FAR module in SAP to ensure that correct figures are produced for the financial statements.	The figures included in the fixed asset register are correctly disclosed. Adjustments are made manually to the property, plant and equipment note.
Derecognition of the Sir John Colfox School and other disposals Our audit testing identified that a number of assets had not been derecognised at the time of disposal. The most significant being the Sir John Colfox Academy School conversion which resulted in a material misstatement in the current and prior years. This omission was due the funding arrangements, however our testing has identified a further number of assets which were not derecognised in the correct year. There is a risk of the value of property, plant and equipment being overstated in the balance sheet and depreciation continuing to be charged on assets that the Council no longer owns. The Council should improve its procedures to ensure that disposals are recognised in the correct period.	No similar instances were identified in the current year.

Follow up of prior year recommendations

Issue and risk	Commentary
Lease disclosures Testing of operating lease payables identified two errors; one where the lease was surrendered in 2020, the other where the lease agreement was not available to corroborate the figure. We also identified a number of leases assigned as in perpetuity which were actually tenancies at will. These have no end date but can be terminated without notice. These do not confer any right to receive rentals resulting in the overstatement of the leases note. Currently this represents a disclosure error in the notes to the financial statements, however errors in the documentation of leases could have a potentially significant impact when determining right of use assets under IFRS 16 in 2024/25. The Council should revisit its leasing records to ensure that the are complete and accurate.	We identified a number of issues in respect of our work on the implementation of IFRS 16. These are reported in current year deficiencies.
Cut Off In several areas of testing including bank payments, invoices raised, creditors and accruals, operating expenses, property, plant and equipment additions and disposals and REFCUS, testing has identified errors resulting from transactions not being recognised in the correct year. There is a risk of misstatement of the accounts from transactions recorded in the wrong period. Management should improve controls to ensure that transactions are recorded in the correct period.	Although our testing of PPE additions did identify one instance of a transaction being recognised in the wrong year, this had improved significantly from the prior year.
Financial statements review The financial statements submitted for audit contained a number of errors and omissions. Management should ensure that the accounts are subject to a thorough review and assessed against the requirements of the Code using a disclosure checklist, to ensure that all .disclosures are complete and to capture any changes required.	Management has undertaken a detailed review of the financial statements, and their content is much improved and required Code updates effected.

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Follow up of prior year recommendations

Issue and risk	Commentary
Bank reconciliation review On reviewing the year end bank reconciliations, we noted that four had not been evidenced as reviewed. There is a risk that errors could occur that are not identified. Management should ensure that all bank reconciliations are reviewed and evidenced as such.	No similar issue identified in the current year.
Schools Bank Accounts The Council's cash and bank balances includes balances relating to local authority schools. Although the balance held is below materiality, we reviewed a sample of these balances against bank account confirmations, focussing on those with differences. Testing identified a number of deficiencies within the bank reconciliation processes undertaken by the Council, relating to reconciliations and investigation of any differences. We also identified two schools banks accounts omitted from the Council's school ledger. Management should review its reconciliation processes for maintained schools and ensure all differences are investigated and resolved.	The overall reconciliation process has improved, although differences still remain in relation to reconciling VAT transaction. Some work remains underway in this area.
Omitted bank codes Through the bank confirmation that we obtained directly, we identified 9 bank accounts with a total aggregate balance of £4.8k, which were not linked to any general ledger code associated with bank accounts. They may not be accounts relevant to the Council and arise from legacy issues. Management should review all bank accounts to ensure that they are appropriately recorded in the ledger or closed if no longer relevant.	All previously identified issues have now been resolved and appropriate controls are in place.

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Follow up of prior year recommendations

Issue and risk	Commentary
Bank accounts The Council has 20 bank accounts in its trial balance originally migrated from the legacy authorities. Further enquiries identified that these accounts were closed at the bank in 2022 but continue to have balances of between £54k and -£25k in the Council's ledger. Enquiries identified that these were likely due to mispostings. We also reviewed 2022/23 bank balances at 31 March 2023 and identified a similar issue. This issue identifies a deficiency in the financial statement closedown process as the bank accounts listed in the trial balance do not tally with the actual bank accounts in use by the Council. Management should review the bank accounts in the trial balance, investigate any remaining balances and remove closed accounts from its listing.	Legacy bank accounts have been removed from the trial balance.
Imprest accounts The Council maintains a number of imprest accounts, effectively petty cash accounts. We identified that these had not been reconciled at the year end and not all transactions relating to accounts were recognised within the financial statements. Management should ensure that all bank reconciliations including imprest accounts are reviewed and evidenced as such.	The differences between the imprest bank accounts and the ledger have reduced this year. We do appreciate that a complete reconciliation is difficult to implement given the nature of petty cash and obtaining all receipts for disparate operations in a timely manner.
Valuation errors We identified that the revalued balances in the FAR had not been reconciled to the valuers reports. This was due to management not allocating the valuation across the various components of the asset, resulting in an overstatement of the value of assets at the year end. We also identified that one of Council's valuers had made errors in compiling the summary valuation report used by management to update the FAR. Although management has engaged a valuation expert, management retains responsibility for the accuracy of the financial statements. There is a risk that the value of assets is misstated. Management should implement further checks to assess the reliability of the figures provided by appointed experts and ensure that they are accurately reflected within the fixed asset register.	Our work identified one error in the valuation report. The values of land and buildings in the summary report for one asset were transposed. Although the error identified does not impact on the financial statements, there would be implications for the correct treatment of assets in the fixed asset register in future years. The valuer reviewed the report, and no further instances were identified.

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Follow up of prior year recommendations

Issue and risk	Commentary
Capital Commitments The Council is disclosing capital commitments of £5.4 million in note 27 of the financial statements. There is no formal process to track capital commitments or to produce a working paper that provides suitable audit evidence. Our testing of bank payments not accrued identified a number of vehicles that were awaiting delivery and not recognised in the 2023/24, and these should be included in capital commitments but were not. There is a risk that capital commitments are not accurately reflected in the financial statements. Management should ensure that all notes to the accounts are supported by adequate working papers.	Management has updated its processes to appropriately capture capital commitments. The capital commitments note has been properly prepared in the current year.
Determination of asset values The Code requires that the carrying value of its assets is not materially different from the current value. Although management does undertake a comprehensive review, it does not quantify the changes in value due to movements in the period since the last valuation. We would expect that relevant indices are used on an asset class basis to determine whether material movements have occurred. There is a risk that there is a material movement in asset values that would require further valuations to be undertaken to address any differences. Management should ensure that a fully quantified to determine whether further valuations are not required to ensure that the carrying value of assets is not materially different from the current value.	Although management has undertaken an assessment of assets not revalued at the year end, the indices used are not, in our view appropriate. We have undertaken our own review and are satisfied that there is no material issue.
Sample populations The Council was unable to provide cleansed population listings for debtors and creditors containing only year end balances, rather than transactions made during the year. This significantly increased the time required to analyse the population and undertake our testing. Our testing identified a number of debtors and creditors misclassified within the note, which a thorough review may have identified prior to the accounts being submitted for audit.	Although the processes at the Authority have not changed, our greater understanding of the system enabled sample selection to be effected in a more timely manner.

Follow up of prior year recommendations

Issue and risk	Recommendations
Incorrect classification of assets Testing identified a number of motor vehicle additions that had been incorrectly classified as assets under construction. There is a risk that the PPE disclosures do not accurately reflect the composition of the Council's asset base and that depreciation is not correctly charged on assets acquired. An isolated occurrence, and potential future similar classification will be considered to mitigate in future.	No instances identified in the current year
MRP calculation The Council has not calculated MRP in accordance with its approved MRP policy. The working paper to support the MRP calculation requires improvement to ensure that the calculation confirms to the guidance and policy. Management should review its calculation of MRP and ensure it is in accordance with the guidance.	Management has instructed its treasury management advisors to undertake a review of MRP. This resulted in a change in the method of calculation.
Impairment indicators The Council had undertaken a review of assets for indicators of impairment, although this did not include assets under construction or community assets. Management should include all relevant asset classes in their consideration of impairment.	This issue remains in the current year.
De minimis - PPE Valuation We have identified a control deficiency in relation to 174 assets which are regarded as de minimis and are not revalued. We have been able to conclude that these assets are still in use by the Council, however, they are not subject to revaluation. There is a risk that the value of these assets are misstated. This issue does not have a material impact on the accounts. Management should consider a periodic review of these assets to ensure that their value remains below the de minimis level.	The recommendation was made in January 2025, which was too late to include within the valuation process for the current year.

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Follow up of prior year recommendations

Issue and risk	Commentary
Assets with a nil Net Book Value and useful economic life We identified that the Council has a significant number of assets with a nil net book value on its balance sheet. From enquires we are satisfied that the majority of these assets remain in use, however as they are fully depreciated, the asset lives assigned do not fully reflect the period of use. Testing also identified a small number of assets with useful lives outside of the range in the Council's policy. Management should ensure that asset lives assigned to fixed assets reflect the period of use and undertake a review and adjust asset lives where appropriate.	Management has acted on our recommendation and has commenced a stock take of all nil book value assets to determine whether these remain in use. This was not completed prior to the year end. This is followed up further o page 51. We continued to identify a small number of assets with anomalous useful economic lives, including negative values, although the value and impact is trivial.
Fair value disclosure - PFI liability The PFI liability is a financial liability held at amortised cost on the balance sheet. IFRS 7 requires disclosure of the fair value of such liabilities where material. The Council has not made such a disclosure. The PFI total liability is £16 million with materiality of £13.4 million, there is no risk of material misstatement. However, this does represent a disclosure omission. Management should obtain fair value calculations for all material financial assets and liabilities.	Under IFRS 16 fair values are no longer required to be disclosed.
Immaterial notes The financial statements include a number of notes for immaterial balances including heritage assets, inventories, assets held for sale and long-term debtors. There is no requirement to produce a note to support immaterial balances and in our view their inclusion adds clutter to accounts, potentially distracting from material information. Management should review the accounts and only produce disclosures where balances and transactions are material unless required by statute.	Management has reviewed the financial statements against the requirements of the Code and removed a significant number of immaterial disclosures.

Value for Money arrangements

Value for Money arrangements

Approach to Value for Money work for the year ended 31 March 2025

The National Audit Office issued its latest Value for Money guidance to auditors in November 2024. The Code requires auditors to consider whether a body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Additionally, The Code requires auditors to share a draft of the Auditor's Annual Report (AAR) with those charged with governance by 30th November each year from 2024-25. Our interim AAR was reported to the Council on 24 November 2025.

In undertaking our work, we are required to have regard to three specified reporting criteria. These are as set out below.

Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services.

Financial sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services.

Governance

How the body ensures that it makes informed decisions and properly manages its risks.

In undertaking this work we have identified three significant weaknesses in arrangements. These are reported in more detail in our Auditors Annual Report.

Independence considerations

Independence considerations

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant matters that may bear upon the integrity, objectivity and independence of the firm or covered persons (including its partners, senior managers, managers). In this context, there are no independence matters that we would like to report to you.

We are required to report to you details of any breaches of the requirements of the FRC Ethical Standard, and of any safeguards applied and actions we have taken to address any threats to independence. We have no matters to report the following matters to you.

We confirm that we have implemented policies and procedures to meet the requirement of the Financial Reporting Council's Ethical Standard

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in February 2025 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Independence considerations

As part of our assessment of our independence we note the following matters:

Matter	Conclusions
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Authority that may reasonably be thought to bear on our integrity, independence and objectivity.
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Authority.
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Authority as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and the Authority.
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place for non-audit services provided.
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Authority, senior management or staff.

Independence considerations

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention and consider that an objective reasonable and informed third party would take the same view. The firm and each covered person have complied with the Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements.

Fees and non-audit services

The following tables below sets out the total fees for audit and non-audit services that we have been engaged to provide or charged from the beginning of the financial year to 17 February 2026, as well as the threats to our independence and safeguards have been applied to mitigate these threats.

The below non-audit services are consistent with the Authority's policy on the allotment of non-audit work to your auditor.

None of the below services were provided on a contingent fee basis

For the purposes of our audit we have made enquiries of all Grant Thornton teams within the Grant Thornton International Limited network member firms providing services to Dorset Council. The table summarises all non-audit services which were identified. We have adequate safeguards in place to mitigate the perceived self-interest threat from these fees.

* Additional fees subject to PSAA approval

Audit fees	**£**
Audit of Authority (scale fee)	594,874
Financial statements – additional work in response to Health and Safety Fraud investigation findings	11,243
VFM – additional risk work in response to Health and Safety Fraud investigation findings	4,500
Additional IT procedures due to IT segregation of duties control findings	5,608
Additional work for IFRS16 lease accounting implementation and errors identified	5,669
Additional work to review PFI accounting model for IFRS16 transitional adjustments	5,582
Work of auditor's external valuation expert	(1,824)
Work of auditor's internal valuation expert to assist in PPE valuation review following change of Council valuer and revised assumptions	11,858
Total	637,510*

Fees and non-audit services

Audit-related non-audit services

Service	2023/24 £	2024/25 £	Threats Identified	Safeguards applied
Certification of Housing Benefits Subsidy claim	39,600	25,875	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £25,875 in comparison to the total fee for the audit of £604,874 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of Teachers Pension Return	12,500	12,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £12,500 in comparison to the total fee for the audit of £604,874 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Total	52,100	38,375		

Fees and non-audit services

Total audit and non-audit fee £675,885	
(Audit fee) £637,510	(Non-audit fee) £38,375

The above fees are exclusive of VAT and out of pocket expenses.

The fees reconcile to the financial statements as follows:

• fees per financial statements	£ 657,000
• Reduction for external valuation expert included in scale fee	(£6,824)
• Additional auditor's internal valuation expert	£11,858
• Net under accrual of grant certification fees	(£9,000)
• Additional risk work in relation to the Building Health and Safety investigation	£11,243
• Additional VFM risk work in response to the Health and Safety fraud investigation	£4,500
• Additional IT procedures due to segregation of duties findings	£5,608
• Additional IFRS 16 and leases work not included in Audit Plan	£1,251
• Denomination rounding	£249
• Total fees per above	£675,885

This covers all services provided by us and our network to the group/Authority, its directors and senior management and its affiliates, that may reasonably be thought to bear on our integrity, objectivity or independence.

Appendices

A. Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	●	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks	●	
Confirmation of independence and objectivity	●	●
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	●	●
Significant matters in relation to going concern	●	●
Views about the qualitative aspects of the Group's accounting and financial reporting practices including accounting policies, accounting estimates and financial statement disclosures		●
Significant findings from the audit		●
Significant matters and issue arising during the audit and written representations that have been sought		●
Significant difficulties encountered during the audit		●
Significant deficiencies in internal control identified during the audit		●
Significant matters arising in connection with related parties		●

A. Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		●
Non-compliance with laws and regulations		●
Unadjusted misstatements and material disclosure omissions		●
Expected modifications to the auditor's report, or emphasis of matter		●

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Distribution of this Audit Findings report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, as a minimum a requirement exists for our findings to be distributed to all the company directors and those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report, to those charged with governance.