Deloitte.

North Dorset District Council

West Dorset District Council

Weymouth & Portland

Dorset Councils Partnership

Dorset Councils Partnership

Report to the Audit and Risk Committee on the audit for the year ended 31 March 2019

Issued 18 July 2019 for the meeting on 26 July 2019

Contents

01 Our final report

02 Appendices

Introduction

The key messages in this report

I have pleasure in presenting our draft report to the Audit and Risk Committee of Dorset Council (the Council) for the 2019 audit of the Dorset Council Partnership (The Partnership), consisting Weymouth and Portland District Council (WPBC), North Dorset District Council (NDDC) and West Dorset District Council (WDDC). The scope of our audit was set out within our planning report presented to the committee in March 2019.

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

Status of the audit

There are a number of areas where information to quantify a potential material impact on the financial statements has not been able to be provided, this relates to the following:

- Understatement of the Shire Hall asset (PY value £3.2m, CY £25k) (WDDC);
- Unquantified misstatement between the revaluation reserve and the capital adjustment account (Partnership); and
- Unquantified misstatement for the indexation of assets since the previous revaluation (NDDC and WDDC);

We are in the process of assessing the impact of these issues on our audit opinion although expect that this may result in qualification in key areas.

In addition there are a number of key areas where audit testing is ongoing as follows:

- Unquantified misstatement for the recognition of a legal provision for outstanding legal cases (Partnership);
- Consideration of the inputs used in the calculation of the fair value of the Lender Option Borrower Option (LOBO) loan in WPBC;
- An objection was received in the previous year in relation to the LOBO loan which is yet to be resolved (WPBC);
- Our property specialist is awaiting support for assumptions for a sample of property valuations (Partnership);
- Central search for unrecorded liability testing (Partnership); and
- Difficulties in reconciling the payroll values included in the accounts to the payroll costs paid out through the payroll runs in the year (Partnership).

The outcome of the testing detailed above may have an impact on the audit opinion, which will be assessed once this work has been completed.

Other areas of our audit are substantially complete subject to completion of the following principal matters:

- Finalisation of testing on provisions, other income, expenditure including payroll, creditors including loans, investments, IFRS 9 conversion, membership data testing, the collection fund statement and other accounts disclosures;
- Receipt of remaining investment confirmation letters;
- Receipt of final financial statements;
- Completion of internal quality assurance procedures;
- Receipt of signed management representation letter; and
- Our review of events since 31 March 2019 through to signing.

We will provide an oral update in relation to the outstanding testing detailed above at the meeting.

Introduction

The key messages in this report (continued)

Conclusions from our testing	• Based on the current status of our audit work, we envisage issuing a modified audit opinion in respect of the items outlined above, with a potential corresponding qualification in respect of the Councils' arrangements to secure economy, efficiency and effectiveness in the use of resources. Our work in respect of the Annual Governance Statement is ongoing. • Each of the Council's ceased to exist as the 1st April 2019 following the Local Government Review (LGR). We have considered the impact and disclosure of this in your accounts. We have confirmed that the going concern assumption is still appropriate in line with the CIPFA guidance. • Due to the outstanding objection in WPBC we expect to be unable to certify the WPBC accounts.
Value for Money	• Subject to appropriate disclosure in the Annual Report and Annual Governance Statement, we do not anticipate reporting any matters within our audit report in respect of the Council's arrangements for securing the economy, efficiency and effectiveness of the use of resources. • Given the level of unknown uncorrected misstatements we are confirming the impact on our value for money opinion.
Narrative Report & Annual Governance Statement	• We have reviewed the Councils' Annual Report & Annual Governance Statement to consider whether it is misleading or inconsistent with other information known to us from our audit work. • Our review of the Annual Governance Statement's compliance with the Delivering Good Governance guidance issued by CIPFA/SOLACE is ongoing and we will provide an update to the Committee. • We have no matters to raise with you in respect of the Narrative Report
Duties as public auditor	• We did not receive any queries or objections from local electors this year. However, an existing objection is still to be resolved in relation to the LOBO loans by the previous auditors, KPMG. However it should be noted that we are unable to certify the accounts until this is resolved. • We have not identified any matters that would require us to issue a public interest report. • We have not had to exercise any other audit powers under the Local Audit and Accountability Act 2014.
Whole of Government Accounts	• None of the Councils included in the Partnership are sampled components for WGA reporting.

Michelle Hopton
Audit Lead

Our audit explained

We tailor our audit to the individual Councils

Identify changes in your business and environment

In our planning report we identified the key changes in your business and articulated how these impacted our audit approach. The key change relates to the Local Government Reorganisation (LGR) of Dorset Councils.

Scoping

Our planning report set out the scoping of our audit.

Other findings

As well as our conclusions on the significant risks we are required to report to you our observations on the internal control environment as well as any other findings from the audit. These are set out on pages 15 to 23 of this report.

Determine materiality

When planning our audit we set our materiality for each council based on 2% of forecast gross expenditure. We updated our materiality assessment based on year-end figures as below using 2% of gross expenditure.

	Materiality	Reporting Threshold
North Dorset	£572k	£28.6k
West Dorset	£1,313k	£65.6k
Weymouth & Portland	£1,163k	£58.1k

We will report to you any misstatements above the misstatement reporting threshold. We will report to you misstatements below the threshold if we consider them to be material by nature.

Significant risk assessment

In our planning report we explained our risk assessment process and detailed the significant risks we have identified on this engagement. We report our findings and conclusions on these risks in this report. No additional risks have been identified since our Audit Plan.

Conclude on significant risk areas

We draw to the Committee's attention our conclusions on the significant audit risks as discussed on pages 6 to 11.

Our audit report

Based on the current status of our audit work, we envisage issuing a modified audit report and potentially a modified value for money conclusion. We will provide an update to the Committee to confirm the wording and conclusions.

Significant risks

Dashboard

Risk	Material	Fraud risk	Planned approach to controls testing	Design and Implementation of controls conclusion	Consistency of judgements with Deloitte's expectations	Comments	Page no.
Completeness and cut-off of expenditure	✓	✓	D+I	Satisfactory	●	Satisfactory	7
Property valuations	✓	✗	D+I	Satisfactory	●	Significant issues identified	8
Management override of controls	✓	✓	D+I	Recommendations identified	●	Satisfactory	10

Overly prudent, likely to lead to future credit ⊖ ⊖ ● ⊕ ⊕ Overly optimistic, likely to lead to future debit.

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

Significant risks (continued)

Completeness and cut-off of expenditure

Risk identified

Under UK auditing standards, there is a presumed risk of revenue recognition due to fraud. We have rebutted this risk, and instead believe that the fraud risk lies with the completeness and cut off of expenditure and completeness and valuation of accruals.

In February 2018, the Partnership approved a budget with a net cost of service of £28.9m (North: £6.1m, West: £13m, Weymouth and Portland: £9.8m). As at September 2018, the Partnership reported an underspend of £0.43m against this position. Given the Partnership's current budget position and the pressures across the whole of the public sector, there is an inherent fraud risk associated with the under recording of expenditure in order for the Partnership to report a more favourable year end position.

There is a risk that the Partnership may materially misstate expenditure through the accruals and provisions balance, including year end transactions, in an attempt to report a more favourable year end position.

Deloitte response

- We have obtained an understanding of the design and implementation of the key controls in place in relation to completeness and cut-off of expenditure, this included review of the process around accruals and provisions;
- We are in the process of performing focused testing in relation to the completeness and cut-off of expenditure including detailed reviews of provisions and accruals; and
- We are in the process of reviewing and providing challenge to the assumptions made in relation to year-end estimates and judgements to assess completeness and accuracy of recorded expenditure.

Our work surrounding the completeness of provisions is in progress. In addition, work is ongoing at the Dorset council to provide assurance of unrecorded liabilities across the merging council entities.

Deloitte view

We have not identified any significant bias in the key judgements made by management based on work performed.

We have not identified any instances of management override of controls in relation to the specific transactions tested based on work performed.

Significant risks (continued)

Valuation of property assets

Risk identified

The Councils are required to hold property assets within Property, Plant and Equipment at valuation. The valuations are by nature significant estimates which are based on specialist and management assumptions and which can be subject to material changes in value.

Key judgements and our challenge of them

The Partnership held £128.1m of property assets at 31 March 2019, a decrease of £4.7m, including (£1.0m) revaluation loss, £2.8m of additions, depreciation of (£6.2m), disposals of (£0.5m) and reclassifications of £0.2m.

The financial year to 31 March 2019 represented one of a five year rolling programme in which approximately 20% of the portfolio was revalued. The valuation was prepared as at 1 April 2018 by the external valuer GVA (who have since become Avison young). The Partnership's estates team then perform an impairment review using their knowledge to identify whether any assets have experienced significant movements in the year to the 31 March 2019.

We would normally expect a revaluation to be performed as close to the year end as possible. We recommend that the newly formed Dorset Council carefully considers the valuation date that will be adopted in future. While there can be delays in the valuation process any tender should be clear to agree deadlines for the valuation work to be performed as it was noted that the Partnership valuation was not complete until January 2019.

Our testing of the inputs provided to the external valuers is still ongoing. We will provide an update to the Committee on progress.

Basis of Qualification

A number of potentially material errors are not expected to be resolved within the financial statements:

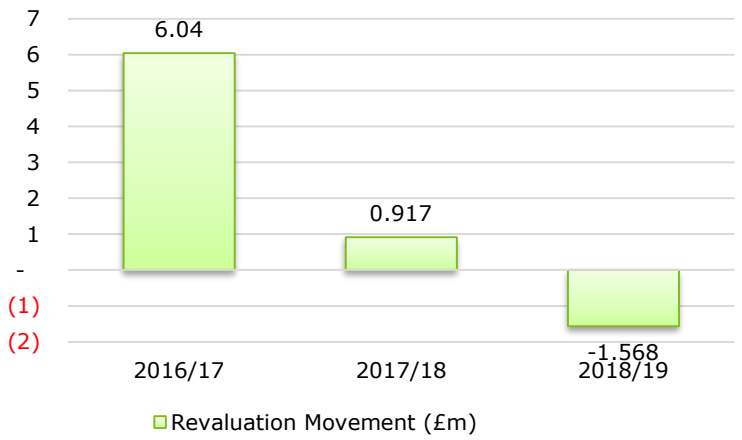
- WDDC changed the valuation basis of the Shire Hall asset in Dorchester to a investment giving a valuation of £25k (previously £3.2m). Following our review of the lease terms we do not believe this is appropriate and the asset should be recognised as an operational asset and valued on this basis. This would result in the requirement for a separate valuation to be performed on this asset which is not possible prior to the signing deadline.

- Each of the councils have accounted for the revaluation gain / loss on the land and building components on a total basis. This is not appropriate under the CIPFA guidance and these components should be accounted for separately. The approach suggested has been confirmed with CIPFA and is consistent with that taken by other councils, including other Dorset county / district councils. This has been the approach taken by the Partnership for the previous 12 years and therefore will be a significant piece of work to calculate the potential error to the opening reserves balances. The opening balances will then have a knock on effect on what the correct accounting treatment would be for the current year gains and losses and therefore these have not been possible to quantify.

- The Partnership's estates team performed an impairment review (discussed to the left) which does not consider whether there have been any significant indexation movements on the Partnership's assets since the previous valuation. As the assets are valued on a five year cycle this can result in potentially significant movements. The Partnership have identified that they do not have sufficient resource to calculate the impact of such indexation.

Significant risks (continued)

Valuation of property assets (continued)



Deloitte response

- We tested the design and implementation of key controls in place around the property valuation, including how the Partnership assures itself that there are no material impairments or changes in value for the assets not covered by the annual valuation.
- We obtained an understanding of approach adopted to the valuation, including assessing the valuer's qualifications, objectivity and independence and reviewing the methodology used.
- We reviewed any revaluations performed in the year and assessed whether they have been performed in a reasonable manner, on a timely basis and by suitably qualified individuals.
- We engaged our valuation specialists, Deloitte Real Estate, to review and challenge the appropriateness of the assumptions used in the valuation of the Council's property assets. This includes consideration of the assumptions made of movements between the valuation being performed in April 2018 and the year-end. However, we are awaiting detailed support for the assumptions used by the external valuers to finalise this work. We will provide an update to the committee in this regard.
- We tested a sample of revalued assets and reperformed the calculation of the movement to be recorded in the financial statements to check they were recorded appropriately. This testing led to the significant issues outlined on page 8.
- We considered the impact of uncertainties relating to the UK's exit from the EU upon property valuations in evaluating the property valuations and related disclosures.

Deloitte view

We have raised a number of potentially material issues that the Partnership are unable to rectify due to resourcing constraints following the LGR. In addition, we have raised a number of control recommendations in relation to the valuation of property assets which should be considered by the Council going forward, as discussed on pages 17 to 19.

Overall, we are unable to conclude on the valuation of property assets and therefore expect to include a qualification to our audit opinion. We are in the process on confirming the extent and wording of this qualification and will provide an update at the meeting.

Significant risks (continued)

Management override of controls

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

Deloitte response

We have considered the overall sensitivity of judgements made in preparation of the financial statements, and note that:

- the Councils' results throughout the year were projecting overspends in operational areas. This was closely monitored and whilst projecting overspends, the underlying reasons were well understood; and
- senior management's remuneration is not tied to particular financial results.

We have considered these factors and other potential sensitivities in evaluating the judgements made in the preparation of the financial statements.

Significant and unusual transactions

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

Journals

We have performed design and implementation testing of the controls in place for journal approval.

We have used data analytics to risk assess journals and select items for detailed follow up testing. The journal entries were selected using computer-assisted profiling based on areas which we consider to be of increased interest.

We have tested the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of financial reporting. Our work in this area is ongoing.

Accounting estimates (see next page)

We have performed design and implementation testing of the controls over key accounting estimates and judgements.

We reviewed accounting estimates for biases that could result in material misstatements due to fraud. We note that overall the changes to estimates in the period were balanced and did not indicate a bias to achieve a particular result.

We tested accounting estimates and judgements, focusing on the areas of greatest judgement and value. Our procedures included comparing amounts recorded or inputs to estimates to relevant supporting information from third party sources.

Deloitte view

We have not identified any significant bias in the key judgements made by management based on work performed. We have raised a number of recommendations in relation to the journals process.

We have not identified any instances of management override of controls in relation to the specific transactions tested based on work performed.

Significant risks (continued)

Management override of controls (continued)

Key judgements

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

As part of our work on this risk, we reviewed and challenge management's key estimates and judgements including:

Estimate / judgement	Details of management's position	Deloitte Challenge and conclusions
Estimate of refunds for successful non domestic rates (NDR) appeals	The provision at 31 March 2019 is £7.4m, a decrease of 0.1m on prior year. The Partership's share of this is £3.0m.	We have reviewed the basis of the calculation for the appeals provision. The internal reviews of this work is ongoing and we will provide an updated.
Legal Provision	Management do not currently have a provision in place for any potential costs from legal claims.	We have challenged management on whether it is appropriate to not recognise any provision in relation to ongoing legal claims. We will provide a verbal update to the committee on any conclusions.
Lender Option Borrower Option (LOBO) Loans	WPDC currently has two LOBO loans held in Weymouth and Portland Borough Council. £11m with PBC and £10m with Barclays, Each LOBO liability is valued based on the fair value of the embedded options and the remaining payments.	We obtained and assessed the initial LOBO agreements in place and reconciled to the fair value calculations performed by Arlingclose to the financial statements. We are in the process of assessing the assumptions used by Arlingclose in the fair value calculation and have engaged financial instrument specialists to assist with the review. We hope to conclude this over the next week and will provide a verbal update to the committee on its outcome.
Expected credit loss (IFRS9)	The risk of default across the classifications has been assessed by management as low following advice from their treasury advisors, Arlingclose. The impact was immaterial to the financial statements.	We have reviewed the working papers provided by Arlingclose for their calculation of the IFRS 9 and reviewed that the methodology adopted is appropriate. Our testing of your IFRS 9 implementation is ongoing.
Estimate of the pension liability including McCloud	Management have engaged their actuaries, Barnett Waddingham, to provide an assessment as to the impact of the McCloud judgement.	We have reviewed the McCloud impact which has been assessed by the Councils Actuary against the GAD and PWC guidance and reports and have agreed the adjustments posted within the financial statements. The audit of the adjustment within the financial statements is ongoing. See page 13 for detailed consideration of the our audit work on the pensions assets and liabilities.

Value for Money

Background
Under the National Audit Office's Code of Audit Practice, we are required to report whether, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The Code and supporting Auditor Guidance Notes require us to perform a risk assessment to identify any risks that have the potential to cause us to reach an inappropriate conclusion on the audited body's arrangements. We are required to carry out further work where we identify a significant risk - if we do not identify any significant risks, there is no requirement to carry out further work.

The Partnership has an outstanding objection from the previous year in relation to the LOBO loans in WPBC. The objection is on the basis that the loans do not provide value for money to the councils due to the interest rate currently in place.

Deloitte risk assessment

- We have not considered the Councils medium and longer term plans in relation to Value for Money considerations as from the 1 April 2019 the Council ceases to exist. The operations, trade and assets of the Council have transferred to a newly established Council.
- Post year end the Council has merged with other local District Council and the County Council. This has been considered as part of the risk assessment in relation to VfM with no specific risk identified. However, professional scepticism has been highlighted to the audit team throughout the audit work completed.
- We discussed the Council's arrangements with Ian Milner, Daniel Povey and internal audit.
- We reviewed the Council's draft Narrative Report, Annual Governance Statement and relevant Council papers and minutes.
- We considered the Council's financial results for the year against the budget that was set for the financial year.
- We considered matters identified by the National Audit Office as potential value for money risks for Councils for 2018/19, with no additional issues noted from those detailed above.

Based upon the work performed in our risk assessment, we did not identify any significant audit risks consistent with our Planning Report.

Deloitte view
As outlined on page 2, there are significant issues upon which we are unable to conclude our audit testing, notably the valuation of property assets. We are in the process of reviewing the impact that this has on our value for money opinion as these areas form part of our considerations.

Other matters

Defined benefits pension scheme

Background

The Partnership participates in the Dorset County Council Local Government Pension Scheme, administered by Dorset County Council (now Dorset Council).

The net pension liability has decreased from £109.8m at 31 March 2018 to £105.4m at 31 March 2019 primarily as a result of a slight increase in the discount rates and slight decreases in mortality assumptions.

The Council's pension liability is affected by the McCloud legal cases in respect of potential discrimination in the implementation of transitional protections following changes in public sector pension schemes in 2015. Subsequent to year-end, the Government was denied leave to appeal the case, removing the uncertainty over recognition of a liability. The actuary has assessed the impact on the Partnership's liability as shown to the right which has been recognised in the financial statements.

Deloitte response

- We have tested the design and implementation of the key controls in place around the pension liability valuation and the inclusion of the actuary's report in in the financial statements. Control recommendations have been raised in respect of this testing.
- We obtained a copy of the actuarial report produced by Barnett Waddingham, the scheme actuary, and agreed in the disclosures to notes in the accounts.
- We assessed the independence and expertise of the actuary supporting the basis of reliance upon their work.
- We reviewed and challenged the assumptions made by Barnett Waddingham, including benchmarking as shown the table opposite. This work is in the process of being finalised.
- We are currently performing testing of the membership data included in the actuaries report.
- We assessed the reasonableness of the Council's share of the total assets of the scheme with the Pension Fund financial statements for the year.
- We have reviewed and challenged the calculation of the impact of the McCloud case on pension liabilities.
- We reviewed the disclosures within the accounts against the Code.

Council	McCloud Impact (£000)
North Dorset District Council	603
West Dorset District Council	1,195
Weymouth & Portland Borough Council	1,024

	Council	Benchmark	Comments
Discount rate (% p.a.)	2.40	2.40	Reasonable
Retail Price Index (RPI) Inflation rate (% p.a.)	3.40	3.22	Prudent
Consumer Price Index (CPI) Inflation rate (% p.a.)	2.40	2.22	Prudent
Salary increase (% p.a.) (over RPI inflation)	0.50	Council specific	Reasonable
Pension increase in payment (% p.a.)	2.40	2.27	Reasonable
Pension increase in deferment (% p.a.)	2.40	2.22	Reasonable
Mortality	S2PMA base tables CMI 2018 projections with a 1.5% p.a. long-term trend	Fund-specific base tables CMI 2018 projections with a 1.25% long-term trend.	Reasonable Very prudent

Deloitte view

The Councils have adjusted the pension liability for the impact of the McCloud case. We have reviewed the assumptions and, on the whole, the set of assumptions is reasonable and lies towards the middle of the range of assumptions when compared with the Deloitte benchmarks. The assumptions have been set in accordance with generally accepted actuarial principles and are compliant with the accounting standard requirements of IAS19.

We will provide an update to the committee on the outstanding areas of testing outlined in our response.

Other matters (continued)

Implementation of IFRS 9 and IFRS 15

Matter identified	The Councils are required to adopt the new accounting standards IFRS 9 *Financial Instruments* and IFRS 15 *Revenues from contracts with customers* in the year ended 31 March 2019. In both cases, the Councils are using a modified retrospective approach to implementation where effectively the cumulative impact of transition to 1 April 2018 is posted as an adjustment to reserves. The scope of IFRS 9 and IFRS 15 is limited to balances arising on "exchange" transactions. Non-exchange debtors, such as council tax and rates, are outside of the scope of IFRS 9 and IFRS 15. The Council has posted no retrospective adjustments with regard to IFRS 15 as there is no material impact on the financial statements.
Response	Management held discussions regarding the accounting impact of the new standards with the Board for the period and determined that the impact is immaterial. The key element impacted by IFRS 9 is the accounting for the bad debt provision for debtors, which must move to a methodology of expected credit losses. Whilst the provision as a whole is not material, we have reviewed the revised calculation methodology and considered the assumptions in light of past experience. We have concluded that IFRS 9 has been applied appropriately and no material adjustment is needed. In addition, the presentation and classification of the Council's financial instruments is affected, in particular the reallocation of funds from available for sale to fair value through profit and loss (FVPL) and the corresponding movements from the available for sale reserve to the capital adjustment account and the pooled fund adjustment account. We are in the process of confirming our work on IFRS 9. We will provide an update on progress to the Committee. Regarding IFRS 15, management was satisfied that no transitional adjustments would be required due to the Council's sources of material income being outside of the scope of the standard or recognised in full within the year. We have reviewed and challenged management's assumptions in light of the Council's contractual arrangements with no issues noted. We have reviewed and challenged the disclosures made in the financial statements which have resulted in additional disclosures in the debtor and creditor note in respect of IFRS 15 balances.

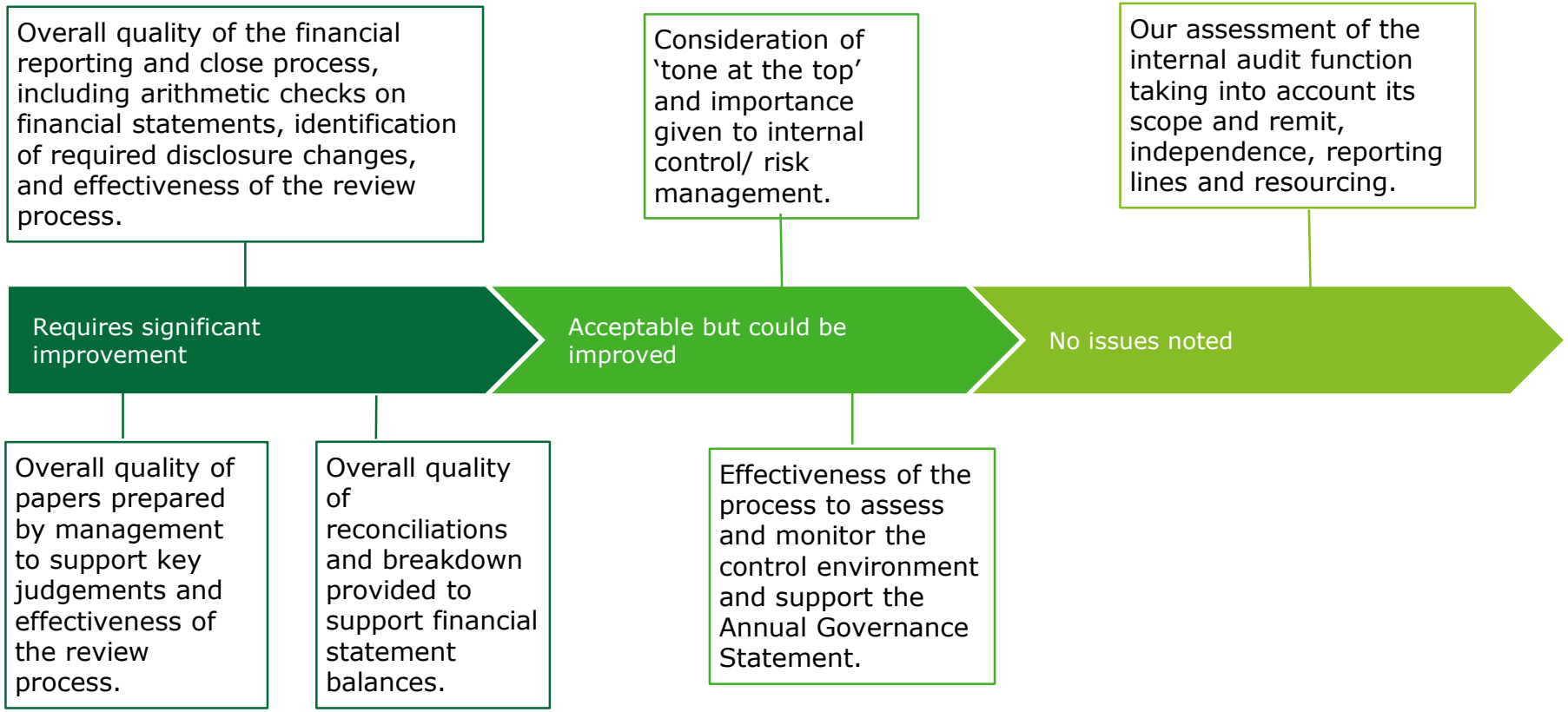
Deloitte view

Detailed reviews of the Arlingclose workings are ongoing and we will provide an update on progress to the committee.

Other significant findings

Internal control and risk management

ISA (UK) 315 requires we obtain an understanding of internal control relevant to the audit. It is a matter of the auditor's professional judgment whether a control, individually or in combination with others, is relevant to the audit. We do not test those controls we do not consider relevant to the audit. Below we provide a view, based on our audit procedures, on the effectiveness of your system of internal control relevant to the audit risks that we have identified.



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

Other significant findings

Internal control and risk management

During the course of our audit we have identified a number of internal control and risk management findings, which we have included below for information.

Area	Observation	Priority
Quality of draft financial statements	The initial draft financial statements which were published for public inspection and presented for audit were not of the expected standard. Issues noted included: • Arithmetic errors; • Inconsistencies between notes and primary statements; • Inconsistencies in movements between notes in the financial statements; • Accounting policies not updated for the adoption of IFRS 9 and IFRS 15; • Accounts disclosures not updated for the adoption of IFRS 15; and • Underlying working papers and ledger breakdowns provided for audit did not reconcile to the financial statements. Together these indicate deficiencies in the financial reporting and close process. We recommend the Council review the year-end reporting and close process, including: • Maintaining appropriate documentation and quantification of judgments made in respect of the materiality of disclosure requirements in preparing the accounts; • Documenting and reviewing internal checks of arithmetic accuracy and internal consistency; and • Documenting and reviewing internal tie back and referencing of the draft financial statements to supporting working papers above the tie through to the trial balance from Civica.	●
Preparation of accounting papers	Management accounting papers were not available for Management accounting papers were not available for a number of the key judgements including, revaluation and provisions. It is good practice (and the expectation of the Financial Reporting Council) for organisations to prepare accounting papers in respect of key matters in the application of accounting standards, in particular for matters of judgement or of estimation complexity. Typically these would include consideration of the relevant requirements of the accounting standards and the Code, the fact pattern (including details of relevant terms of contracts etc), an assessment of how the standards apply in this context, consideration of potential alternative treatments, the proposed approach to measurement/calculation of accounting entries required, and the required disclosures. The preparation of accounting papers both supports accurate financial reporting, including facilitating both internal and external review and challenge, and provides a resource to ensure institutional knowledge in the organisation. We recommend the Council adopt an approach of preparing papers for any key accounting judgements or issues arising.	●

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

Low Priority

Medium Priority

High Priority

Other significant findings

Internal control and risk management

During the course of our audit we have identified a number of internal control and risk management findings, which we have included below for information.

Area	Observation	Priority
Management review of estate's impairment analysis	There is no evidence of management's review of the impairment review produced by Greg Northcote (Estates Manager). We would expect that this review is performed and evidenced.	●
No Review of Revaluation or pension Journals	We identified that there is no review of the journals posted by the Financial Accountant to reflect the revaluation and pension movements in the year. These journals affect the PPE balances and pensions, along with depreciation and the reserves where relevant. These are significant balances in the accounts. There is a risk that these postings may have been inaccurate/made incorrectly with no subsequent review to check the accuracy of the postings.	●
Out of date valuations	It was noted through our review that a number of assets had a valuation date outside of the five year cycle. Upon investigation it was identified that estates had not included these as part of the revaluation due to other factors. However, finance had not reflected this in their fixed asset register.	●

Other significant findings

Internal control and risk management

During the course of our audit we have identified a number of internal control and risk management findings, which we have included below for information.

Area	Observation	Priority
Journal Reviews	We identified that journals are not approved prior to being posted. There is a retrospective review which is undertaken by the Strategic Director however this would be considered a weak control as opposed to an approval prior to posting. The client acknowledged the benefits of an approval prior to the journal being posted however, due to lack of resource at the Partnership, does not foresee this recommendation being easily implemented.	
Reviews of Accruals and Provisions	We were unable to evidence Senior Management/S151 Officer's review of the manual accruals and provisions figures produced by Accounting Officers during the year-end process.	
Assets selected for valuation in the year are not reviewed prior to engagement with the valuers	The assets selected for testing across the Partnership are determined by an appropriately qualified senior officer. However, we would expect there to be some review by management to confirm that the decisions made are appropriate and to ensure that all assets are covered as part of the five year cycle.	
Indexation of location factors not considered for assets not valued in the year	We would expect that the council consider whether the value of their assets will be materially impacted by the movement of location factors in the area. This does not currently form part of the impairment review which has led to errors in the current year accounts. We would expect that this is considered in future periods.	

Other significant findings

Internal control and risk management

During the course of our audit we have identified a number of internal control and risk management findings, which we have included below for information.

Area	Observation	Priority
WDDC - Accounting for the disposal of assets that were scrapped in a previous financial year	The disposals balance at year end of £123,301 (for WDDC) relates to the scrapping of 'vehicles, plant & equipment' which took place over six years ago. From discussions with the client it is noted that it was only in 18/19 that the gross cost and depreciation has been written out of the financial statements. We recommend that management ensure that they receive responses from all departments identifying disposal on a timely basis.	
Event after the reporting period for Nordon Council Offices	It was identified that North Dorset District Council had agreed a sale for Nordon Council Offices prior to year end. However, this was retained as a surplus asset in the year end accounts following a request from the Secretary of State (SoS) to review the case. Subsequent to year end, the SoS decided that it would release the application and therefore the sale is likely to go through before the end of the financial year. This constitutes a non-adjusting event after the reporting period and therefore should be disclosed in Note 6. This has arisen due to management not confirming with estates whether there have been any significant changes to the portfolio. We recommend that this should be standard practice prior to the publication of the unaudited accounts.	
Engagement terms with the internal and external valuer	The Partnership does not have signed engagement terms with the external valuer GVA (now Avison Young). The engagement terms are agreed via discussions and email correspondence with the Estates team.	

Other significant findings

Internal control and risk management

In support of our financial statement audit for 31 March 2019, we have performed procedures to assess the design and implementation of selected general IT controls as part of our audit risk assessment procedures. Our scope included limited review on Civica and underlying database. Set out below are our findings:

	Observation	Priority
Disaster Recovery Plan Testing	Although IT disaster recovery arrangements have been put in place, a formal set of policies and procedures (as part of the recovery plan) is not formally documented and tested to assist employees in the event of disaster. Disaster recovery forms a significant part of an organisation's business continuity plan. Thus we recommend that this is formally documented, approved and tested on a regular basis to ensure it works and meet the organisation's defined recovery point objective (RPO) and recovery time objective (RTO) requirements.	●
Authentication security settings	Through inspection of the Civica database password security controls, it was identified that there is no system mandatory requirement for strong passwords for two accounts with administrator level privileges. These two accounts identified to be system accounts and passwords are shared accounts and passwords are shared amongst the IT team. Password security control weaknesses increase the vulnerability of accounts to unauthorised access attempts and should be addressed, either through implementing stronger password parameters in the system or, if this is not possible, through alternative monitoring controls to increase the chance of detecting any such attempts.	●

Other significant findings

Internal control and risk management

In support of our financial statement audit for 31 March 2019, we have performed procedures to assess the design and implementation of selected general IT controls as part of our audit risk assessment procedures. Our scope included limited review on Civica and underlying database. Set out below are our findings:

	Observation	Priority
Privileged users	Administrator access on Civica has been granted to four business users from finance. Business users having access to administrative privileges in the system constitutes a segregation of duties conflict and may lead to manual controls being overridden without detection. We recommend that management identifies business users with administrator privileges within this application and remove these. We further recommend an additional check to ensure the related inappropriate access was not exploited during the period it was held.	●
Third party monitoring	There is no Service Level Agreement ("SLA") in place between the Council and the third party for ongoing support for the Civica application. Service level agreements are a critical component of any technology vendor contract, and thus we recommend management to implement a formal SLA which sets out the metrics by which service is measured, as well as remedies or penalties that will be applied when agreed-upon service levels are not met.	●

Other significant findings

Financial reporting findings

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

Qualitative aspects of your accounting practices:

As discussed earlier in the report (see page 3) there were issues noted in relation to a general preparedness for audit and delays in the follow up of requests. This is primarily due to staff changes following the LGR.

The process of reviewing key judgements has resulted in a number of control recommendations as outlined on pages 15-19. This should be considered by Dorset Council when implementing any new controls or processes.

There have been significant delays in the feedback of accounts comments which we are still in the process of reviewing.

Significant matters discussed with management:

There have been a number of significant matters discussed with management throughout the audit process. This has primarily related to the outstanding issues identified on page 2, which are expected to result in the qualification of our audit opinion, and the control recommendations identified on pages 14 to 19.

Other matters relevant to financial reporting:

Following the LGR there has been significant loss of cumulative knowledge of the Partnership and its workings. The Committee should perform additional procedures to assure that they consider how this may impact the Council in future periods.

The Council should also consider the impact of the qualifications outlined in this report on the prior year figures included in the 2019/20 financial statements. The Council should perform additional work to assure themselves that the issues identified have been appropriately addressed.

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

Other significant findings

Significant difficulties encountered:

Following the Local Government Reorganisation (LGR) the Partnership have had some significant changes within the finance department with members of staff having left or due to leave. This has reduced the availability of staff to field queries which was exacerbated due to unavailability of key contacts.

For details of other difficulties encountered please refer to pages 14 and 15.

Fraud and non-compliance with laws and regulations

Local authorities are required to publish their accounts for inspection for a period including the 10 working days at the start of June. The draft accounts published on 3 June were not of the quality expected as outlined on page 3.

We are aware of an instance of fraud that has been investigated by your Internal Audit. At the date of sending this report the investigation into this case is ongoing. We will continue to monitor the progress of this case.

Other matters:

As of the date of this report there are no other matters we wish to bring to your attention.

Our audit report

Matters relating to the form and content of our report

Here we discuss how the results of the audit impact on other significant sections of our audit report. This is based upon the current status of our audit work and may change as we resolve the outstanding issues discussed in this report.

Our opinion on the financial statements

Our opinion on the financial statements is expected to be modified.

Material uncertainty related to going concern

We have not identified a material uncertainty related to going concern and will report by exception regarding the appropriateness of the use of the going concern basis of accounting.

Emphasis of matter and other matter paragraphs

The inclusion of the issues highlighted on page 3 in our audit opinion are currently under consideration. We will provide an update to the Committee with the expected wording in our opinion.

Our value for money conclusion

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money).

Our conclusion on the Council's arrangements is currently under review. We will provide an update to the Committee.

Other reporting responsibilities

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

Your annual report

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

	Requirement	Deloitte response
Narrative Report	The Narrative Report is expected to address (as relevant to each Council): - Organisational overview and external environment; - Governance; - Operational Model; - Risks and opportunities; - Strategy and resource allocation; - Performance; - Outlook; and - Basis of preparation	We have assessed whether the Narrative Report has been prepared in accordance with CIPFA guidance. We have also read the Narrative Report for consistency with the annual accounts and our knowledge acquired during the course of performing the audit, and is not otherwise misleading. Our consistency checks will be finalised upon receipt of a final version of the annual accounts.
Annual Governance Statement	The Annual Governance Statement reports that governance arrangements provide assurance, are adequate and are operating effectively.	We have assessed whether the information given in the Annual Governance Statement meets the disclosure requirements set out in CIPFA/SOLACE guidance, is misleading, or is inconsistent with other information from our audit. Our review will be finalised upon receipt of a final version of the accounts.

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

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

- Results of our work on key audit judgements and our observations on the quality of your Annual Report.
- Our internal control observations.
- Other insights we have identified from our audit.

What we don't report

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

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

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

The scope of our work

Our observations are developed in the context of our audit of the financial statements. We described the scope of our work in our audit plan and again in this report.

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

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

Michelle Hopton

for and on behalf of Deloitte LLP

Bristol

18 July 2019

Appendices

Audit adjustments – North Dorset District Council

Unadjusted misstatements

The following uncorrected misstatements have been identified up to the date of this report which we request that you ask management to correct as required by ISAs (UK). At the date of this report we have been unable to quantify these adjustments.

		Debit/ (credit) CIES £000	Debit/ (credit) in net assets £000	Debit/ (credit) prior year reserves £000	*Memo: Debit/ (credit) usable reserves £000*	If applicable, control deficiency identified
Misstatements identified in current year						
Indexation gain / loss on assets since revaluation	[1]			Unknown		
Aggregation of land and building gains / losses on revaluation	[2]			Unknown		
Misstatements identified in prior years						
None noted						
Total						

(1) The Partnership's estates team performed a impairment review (discussed on page 8) does not consider whether there have been any significant indexation movements on the Partnership's assets since the previous valuation. As the assets are valued on a five year cycle this can result in potentially significant movements. The Partnership have identified that they do not have sufficient resource to calculate the impact of such indexation.

(2) Each of the councils have accounted for the revaluation gain / loss on the land and building components on a total basis. This is not appropriate under the CIPFA guidance and these components should be accounted for separately. The approach suggested has been confirmed with the CIPFA and is consistent with that taken by other councils, including other Dorset county / district councils. This has been the approach taken by the Partnership for the previous 12 years and therefore will be a significant piece of work to calculate the potential error to the opening reserves balances. The opening balances will then have a knock on effect on what the correct accounting treatment would be for the current year gains and losses and therefore these have not been possible to quantify.

Audit adjustments – North Dorset District Council

Corrected misstatements

The following corrected misstatements have been identified up to the date of this report which we requested that management correct as required by ISAs (UK).

	Debit/ (credit) CIES £000	Debit/ (credit) in net assets £000	Debit/ (credit) prior year reserves £000	*Memo: Debit/ (credit) usable reserves £000*	If applicable, control deficiency identified
None Noted					
Total					

Audit adjustments – West Dorset District Council

Unadjusted misstatements

The following uncorrected misstatements have been identified up to the date of this report which we request that you ask management to correct as required by ISAs (UK). At the date of this report we have been unable to quantify these adjustments.

		Debit/ (credit) CIES £000	Debit/ (credit) in net assets £000	Debit/ (credit) prior year reserves £000	*Memo: Debit/ (credit) usable reserves £000*	If applicable, control deficiency identified
Misstatements identified in current year						
Indexation gain / loss on assets since revaluation	[1]			Unknown		
Aggregation of land and building gains / losses on revaluation	[2]			Unknown		
Shire Hall	[3]			Unknown		
Misstatements identified in prior years						
None noted						

(1) The Partnership's estates team performed a impairment review (discussed on page 8) does not consider whether there have been any significant indexation movements on the Partnership's assets since the previous valuation. As the assets are valued on a five year cycle this can result in potentially significant movements. The Partnership have identified that they do not have sufficient resource to calculate the impact of such indexation.

(2) Each of the councils have accounted for the revaluation gain / loss on the land and building components on a total basis. This is not appropriate under the CIPFA guidance and these components should be accounted for separately. The approach suggested has been confirmed with the CIPFA and is consistent with that taken by other councils, including other Dorset county / district councils. This has been the approach taken by the Partnership for the previous 12 years and therefore will be a significant piece of work to calculate the potential error to the opening reserves balances. The opening balances will then have a knock on effect on what the correct accounting treatment would be for the current year gains and losses and therefore these have not been possible to quantify.

(3) WDDC changed the valuation basis of the Shire Hall asset in Dorchester to a investment giving a valuation of £25k (previously £3.2m). Following our review of the lease terms we do not believe this is appropriate and the asset should be recognised as an operational asset. This would result in the requirement for a separate valuation to be performed on this asset which is not possible prior to the agreed deadline.

Audit adjustments – West Dorset District Council

Corrected misstatements

The following corrected misstatements have been identified up to the date of this report which we requested that management correct as required by ISAs (UK).

		Debit/ (credit) CIES £000	Debit/ (credit) in net assets £000	Debit/ (credit) prior year reserves £000	*Memo: Debit/ (credit) usable reserves £000*	If applicable, control deficiency identified
Depreciation charged before revaluation	[1]	90	(90)			
Total		**90**	**(90)**			

(1) We identified that the depreciation charge had been calculated prior to revaluation. As the revaluation took place on 1st April 2018, the revaluation movements should have been calculated before the depreciation charge was applied. This has been accepted and corrected by management

Audit adjustments – Weymouth and Portland Borough Council

Unadjusted misstatements

The following uncorrected misstatements have been identified up to the date of this report which we request that you ask management to correct as required by ISAs (UK). At the date of this report we have been unable to quantify these adjustments.

		Debit/ (credit) CIES £m	Debit/ (credit) in net assets £m	Debit/ (credit) prior year reserves £m	*Memo: Debit/ (credit) usable reserves £m*	If applicable, control deficiency identified
Misstatements identified in current year						
Indexation gain / loss on assets since revaluation	[1]		119	(119)		
Aggregation of land and building gains / losses on revaluation	[2]			Unknown		
Misstatements identified in prior years						
None noted	[3]					

(1) The Partnership's estates team performed a impairment review (discussed on page 8) does not consider whether there have been any significant indexation movements on the Partnership's assets since the previous valuation. As the assets are valued on a five year cycle this can result in potentially significant movements. The value included above is an estimate produced by Deloitte, the Partnership have identified that they do not have sufficient resource to calculate the impact of such indexation.

(2) Each of the councils have accounted for the revaluation gain / loss on the land and building components on a total basis. This is not appropriate under the CIPFA guidance and these components should be accounted for separately. The approach suggested has been confirmed with the CIPFA and is consistent with that taken by other councils, including other Dorset county / district councils. This has been the approach taken by the Partnership for the previous 12 years and therefore will be a significant piece of work to calculate the potential error to the opening reserves balances. The opening balances will then have a knock on effect on what the correct accounting treatment would be for the current year gains and losses and therefore these have not been possible to quantify.

Audit adjustments – Weymouth and Portland Borough Council

Corrected misstatements

The following corrected misstatements have been identified up to the date of this report which we requested that management correct as required by ISAs (UK).

	Debit/ (credit) CIES £m	Debit/ (credit) in net assets £m	Debit/ (credit) prior year reserves £m	*Memo: Debit/ (credit) usable reserves £m*	If applicable, control deficiency identified
None noted					
Total					

Audit adjustments – All three Councils

Disclosures

Disclosure misstatements

The following uncorrected disclosure misstatements have been identified up to the date of this report which we request that you ask management to correct as required by ISAs (UK).

Disclosure
In the WPBC accounts it was noted that the PPE note the cost and accumulated depreciation values have not been reversed out to take into account any revaluation movements. When a revaluation is performed we would expect the gross cost to be adjusted. This will take considerable work to work back through previous years and therefore has not been corrected. Our work on the testing of disclosures is ongoing at the time of the report being released. We will provide an update to the committee with the progress.

Other disclosure recommendations

Although the omission of the following disclosures does not materially impact the financial statements, we are drawing the omitted disclosures to your attention because we believe it would improve the financial statements to include them or because you could be subject to challenge from regulators or other stakeholders as to why they were not included.

Disclosure
Our work on the testing of disclosures is ongoing at the time of the report being released. We will provide an update to the committee with the progress.

Fraud responsibilities and representations

Responsibilities explained

Responsibilities:

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

Required representations:

We have asked the Council to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you have disclosed to us all information in relation to fraud or suspected fraud that you are aware of that affects the Partnership.

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

Audit work performed:

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

During course of our audit, we have had discussions with management and those charged with governance.

During course of our audit, we have had discussions with management, those charged with governance and the Partnership's internal audit function.

In addition, we have reviewed management's own documented procedures regarding fraud and error in the financial statements.

We have reviewed the paper prepared by management for the Audit and Risk Committee on the process for identifying, evaluating and managing the system of internal financial control.

Concerns:

No issues noted

Independence and fees

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

Independence confirmation	We confirm that we comply with APB Ethical Standards for Auditors and that, in our professional judgement, we and, where applicable, all Deloitte network firms are independent and our objectivity is not compromised.
Fees	The audit fee for 2018/19, in line with the fee range provided by PSAA, is £97,094 as broken down below. However, we have incurred significant additional costs during the course of the audit which will be agreed separately. No non-audit fees have been charged by Deloitte in the period.
Non-audit services	In our opinion there are no inconsistencies between APB Ethical Standards for Auditors and the Council's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the Council, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence. We are not aware of any relationships which are required to be disclosed.

	Proposed £ (exc VAT)	Planned £ (exc VAT)	Comments
Partnership Audit Fee North Dorset District Council West Dorset District Council Weymouth and Portland Borough Council	TBC	 30,912 33,091 33,091	We have incurred additional costs in our work on the 2018/19 audit due to difficulties and delays in obtaining information, additional work in respect of the adoption of IFRS 9 and 15, and errors identified in the draft accounts. We have therefore expect to propose an additional fee to management. This is subject to finalisation of the costs incurred following completion of the audit and approval by Public Sector Audit Appointments Limited.
Total audit	TBC	97,094	
Total fees	**TBC**	**97,094**	

Deloitte.