

# The Audit Findings for Christchurch Borough Council

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Year ended 31 March 2019

25 July 2019



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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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# Headlines

This table summarises the key findings and other matters arising from the statutory audit of Christchurch Borough Council and the preparation of the Authority's financial statements for the year ended 31 March 2019 for those charged with governance.

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<b>Financial Statements</b>	<p>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:</p> <ul style="list-style-type: none"><li>• give a true and fair view of the financial position of the Authority and its income and expenditure for the year; and</li><li>• 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.</li></ul> <p>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report) is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Our audit work was completed on site during June and July. Our findings are summarised on page 5. We have identified an adjustment to the financial statements that has resulted in an adjustment being required to the Authority's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix B.</p> <p>Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion at Appendix E or material changes to the financial statements, subject to the following outstanding matters:</p> <ul style="list-style-type: none"><li>- completion of testing for operating expenses, debtors and creditors;</li><li>- finalising of testing of property, plant and equipment;</li><li>- related parties testing;</li><li>- response to confirmation requests to the auditor of Dorset Pension Fund</li><li>- receipt of management representation letter; and</li><li>- review of the final set of financial statements.</li></ul> <p>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited.</p> <p>Our anticipated audit report opinion will be unqualified including an Emphasis of Matter paragraph highlighting that the Authority has now demised with its services transferred to the newly formed Bournemouth Christchurch and Poole Council.</p>
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# Headlines

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## Value for Money arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').

We have completed our risk based review of the Authority's value for money arrangements. We have concluded that Christchurch Borough Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 16 to 17.

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## 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 have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.

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## Acknowledgements

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

# Summary

## Overview of the scope of our audit

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

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, 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 Authority's financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

## Audit approach

Our audit approach was based on a thorough understanding of the Authority's business and is risk based, and in particular included:

- An evaluation of the Authority's internal controls environment, including its IT systems and controls; and

- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.
- We were required to change our approach to the testing of payroll costs. The Council's license arrangement had ceased and we were unable to access the required reports to undertake substantive analytical procedures. We undertook testing of individual payroll transactions as an alternative.

We have not had to alter or change our audit plan, as communicated to the Joint Audit Committee of Christchurch Borough Council on 20 March 2019.

## Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion by 31 July 2019, as detailed in Appendix E. These outstanding items include:

- completion of testing for operating expenses, debtors and creditors;
- finalising of testing of property, plant and equipment;
- related parties testing;
- response to confirmation requests to the auditor of Dorset Pension Fund
- receipt of management representation letter; and
- review of the final set of financial statements.

## Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality has been reduced from the £617,000 reported in our audit plan reflecting the reduction in the Authority's expenditure reported in the draft accounts submitted for audit. We detail in the table below our determination of materiality for Christchurch Borough Council.

	Amount (£)	Qualitative factors considered
Materiality for the financial statements	595,000	<ul style="list-style-type: none"> <li>• Materiality has been based on 2% of the Authority's gross expenditure</li> </ul>
Tolerable error	446,000	<ul style="list-style-type: none"> <li>• Our tolerable error has been set at 75% of our overall materiality</li> </ul>
Trivial matters	29,750	<ul style="list-style-type: none"> <li>• This is set at 5% of financial statements materiality and reflects a level below which stakeholders are unlikely to be concerned by uncertainties.</li> </ul>

# Significant findings – audit risks

## Risks identified in our Audit Plan

## Commentary

- 1 Improper revenue recognition**
- Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated 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 relating to revenue recognition.
- Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:
- there is little incentive to manipulate revenue recognition
  - opportunities to manipulate revenue recognition are very limited
  - the culture and ethical frameworks of local authorities, including Christchurch Borough Council, mean that all forms of fraud are seen as unacceptable
- Therefore we do not consider this to be a significant risk for Christchurch Borough Council.

### Auditor commentary

We have not identified any reason to change our assessment for Christchurch Borough Council.

- 2 Management override of controls**
- Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how performance is reported.
- We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.

### Auditor commentary

We carried the following audit procedures in response to this risk:

- evaluated the design effectiveness of management controls over journals;
- analysed the journals listing and determine the criteria for selecting high risk unusual journals;
- undertook procedures to ensure the population of journals selected for testing was complete:
- risk assessed testing of journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; and
- gained an understanding of the accounting estimates and critical judgements applied by management and consider their reasonableness with regard to corroborative evidence.

Our audit work identified that, as in previous years, journals are not subject to authorisation. Management have responded that they acknowledge this risk which is due to the small size of the finance team. Processes will be subject to review and change as the Authority's services have now transferred to the new unitary. Our testing and other procedures did not identify any further issues in respect of the work undertaken.

# Significant findings – audit risks

## Risks identified in our Audit Plan

## Commentary

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### Valuation of land and buildings

The Authority revalues its land and buildings on a rolling five-yearly basis. The valuation date is 1 April. In addition to this rolling programme, the Authority reviews all its assets on a 2-3 year basis where an annual review is not required to provide further assurance.

This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£60 million) and the sensitivity of this estimate to changes in key assumptions.

Additionally, management will need to ensure the carrying value in the Authority's financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date where a rolling programme is used and where valuations are carried out at the 1 April 2018.

We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.

### Auditor commentary

The work undertaken in respect of the valuation of the Authority's land and buildings assets is detailed on page 11 as part of our review of the Authority's work on estimates.

As in the prior year, we note that the Authority values its land and building assets at 1 April and that not all assets are revalued in the year. We are satisfied that the Authority has undertaken sufficient review to ensure that the carrying value of these assets is not materially different from the current value and has instructed the valuer to undertake a year end review of assets, where a significant change in value may have occurred. However this remains an area where significant changes in asset values may occur since the valuation date and as in the prior year, we recommend that the new unitary authority considers obtaining year end valuations for significant land and building assets.

From our audit work we are satisfied that the asset valuations are not materially misstated.

# Significant findings – audit risks

## Risks identified in our Audit Plan

## Commentary

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### Valuation of pension fund net liability

The Authority's 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 (£27 million in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions.

We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.

### Auditor commentary

We carried the following audit procedures in response to this risk:

- identified the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement;
- review of the scope of the actuary's work;
- review of the competence, expertise and objectivity of the actuary who carried out the Authority's pension fund valuation;
- gaining an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made;
- review of the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary;
- reviewed if there are any departures from the actuary's recommended assumptions – none noted;
- reviewed the duration of liabilities of the Authority to ensure assumptions used are appropriate to the asset and liability profile of the Authority;
- compared the actuary's assumptions to the report provided by the auditor's expert; and
- obtained confirmation from the auditor of the Dorset Pension Fund over controls of the accuracy and completeness of source data provided to the actuary and of the controls in place to ensure that member data is correct.


We have reviewed the actual contributions and benefits paid compared with the estimated data used by the actuary to ensure the estimates are reasonable.

Our audit work has not identified any issues in respect of the valuation of the pension fund net liability.

# Significant findings - other issues

Issue	Commentary	Auditor view
<p><b>Potential impact of the McCloud judgement</b></p> <p>The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members.</p> <p>The Government applied to the Supreme Court for permission to appeal this ruling, but this permission to appeal was unsuccessful. The case will now be remitted back to employment tribunal for remedy.</p> <p>The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for pension funds, but also for other pension schemes where they have implemented transitional arrangements on changing benefits.</p>	<p>Discussion is ongoing in the sector regarding the potential impact of the ruling on the financial statements of Local Government bodies.</p> <p>The Authority requested an estimate from its actuary of the potential impact of the McCloud ruling. The actuary's estimate was of a possible increase in pension liabilities of £436k and a corresponding increase in service costs for the year.</p> <p>The Authority has included the impact on service costs as a remeasurement of the net defined pension liability rather than individually to service costs.</p> <p>Although management's view is that the impact of the ruling is not material for Christchurch Borough Council, management has determined that an adjustment should be made to the financial statements to reflect the most complete position. This has been adjusted through Other Comprehensive Income rather than through service costs, which we consider to be the correct treatment.</p>	<p>We have reviewed the analysis performed by the actuary, and consider that the approach that has been taken to arrive at this estimate is reasonable.</p> <p>In our view there is sufficient evidence to indicate that a liability is probable, and we concur with management's decision to amend the financial statements. We also acknowledge the significant uncertainties relating to the estimation of the impact on the Authority's liability.</p> <p>We have included this as an adjusted misstatement within Appendix C.</p>


# Significant findings – key judgements and estimates

Accounting area	Summary of management's policy	Audit Comments	Assessment
<b>Provisions for NNDR appeals - £419k</b>	The Authority is responsible for repaying a proportion of successful rateable value appeals. Management calculates the level of provision required and is based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates. During the year management has reviewed the level of appeal reserve and determined it prudent to increase the amount set aside by £93k for 2018/19	<p>The underlying information used to determine the estimate appears appropriate.</p> <p>The calculation of the NNDR provision is consistent with the approach taken last year.</p> <p>An appropriate disclosure is included in Note 31 of the Statement of accounts.</p>	 <b>Green</b>

## Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
<p><b>Land and Buildings – Other - £57.1m</b></p>	<p>Other land and buildings comprises £32.7m of specialised assets such as leisure centres, public conveniences and Highcliffe Castle, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£23.1m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end.</p> <p>The Authority has engaged an external valuer DVS to complete the valuation of properties as at 1 April 2018 on a five yearly cyclical basis.</p> <p>In addition to this rolling programme, the Authority reviews all its assets on a 2-3 year basis where an annual review is not required, to provide further assurance.</p> <p>The valuation of properties valued by the valuer has resulted in a net downwards revaluation of £499k, in the main due to the downward revaluation of Highcliffe Castle, following extensive capital works. This asset was revalued at 31 March 2019.</p> <p>Management have considered the year end value of non-valued properties, and the potential valuation change in the assets revalued at 1 April 2018, based on the market review provided by the valuer as at 31 March 2019, to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued has identified no material change to the properties value.</p> <p>The Authority also transferred a number of assets valued at £863k to the newly formed Christchurch and Highcliffe and Walkford Parish Councils.</p>	<p>We carried the following audit procedures in response to this risk:</p> <ul style="list-style-type: none"> <li>• Review of management's processes and assumptions for the calculation of the estimate.</li> <li>• Review of the competence, expertise and objectivity of the District Valuer Service</li> <li>• Review of the instructions issued to valuation experts and the scope of their work</li> <li>• Discussions with the Authority's valuer about the basis on which the valuation was carried out, challenging the key assumptions.</li> <li>• Review and challenge of the information used by the valuer to ensure it was robust and consistent with our understanding.</li> <li>• Testing of revaluations made during the year to ensure they were input correctly into the Authority's asset register</li> <li>• Evaluation of the assumptions made by management for those assets not revalued during the year and those revalued at 1 April 2018 and how management satisfied themselves that these were not materially different from the current value at the balance sheet date.</li> </ul> <p>In addition, we considered movements in market indices between revaluation dates and the year end in order to determine whether these indicate that current values had moved materially over that time.</p> <p>We have obtained independent sources of evidence to challenge the valuation of assets and from our work to date we conclude that the carrying value of assets at the year end is not materially different from the current value.</p> <p>We considered the adequacy of the disclosures in the financial statements in relation to this estimate, which were considered to be adequate.</p>	<p style="text-align: center;">   <b>Amber</b> </p>

## Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
<b>Net pension liability – £28.8m</b>	<p>The Authority's net pension liability at 31 March 2019 is £26.828.m (PY £27.486m) comprising the Dorset Local Government and unfunded defined benefit pension scheme obligations. The Authority uses Barnett Waddingham LLP 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 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £2.183m net actuarial loss during 2018/19.</p>	<ul style="list-style-type: none"> <li>We have assessed the Authority's actuary, Barnett Waddingham, to be competent, capable and objective.</li> <li>We have performed additional tests in relation to accuracy of contribution figures, benefits paid, and investment returns to gain assurance over the 2018/19 roll forward calculation carried out by the actuary and have no issues to raise.</li> <li>We have used PwC as our auditor expert to assess the actuary and assumptions made by the actuary – see table below for our comparison of actuarial assumptions:</li> </ul>	●
Discount rate	2.40%-2.50%	Assumption is reasonable and towards the more optimistic end of expected ranges	● Green
Pension increase rate	2.50%-2.40%	Assumption is reasonable and towards the more optimistic end of expected ranges	● Green
Salary growth	3.85%	Lies within the 3.1% to 4.35% range	● Green
Life expectancy – Males currently aged 45 / 65	Pensioners: 22.9-24.8 Non-pensioners: 22.9-24.8	Assumption is based on the CMI 2013 model and allowance is towards more prudent end of expect ranges	● Green
Life expectancy – Females currently aged 45 / 65	Pensioners: 24.1-25.1 Non-pensioners: 26.2-26.9	Assumption is based on the CMI 2013 model and allowance is towards more prudent end of expect ranges	● Green

## Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# Going concern

## Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

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## Going concern commentary

### Management's assessment process

Christchurch Borough Council ceased on 31 March 2019. Its services, assets and liabilities were transferred to the new Bournemouth, Christchurch and Poole Council on 1 April 2019.

Management undertook an assessment in respect of going concern which was provided to us.

### Work performed

We have reviewed management's considerations in relation to going concern and conclusion that the accounts should be prepared on a going concern basis. No indications that a material uncertainty in relation to going concern were identified by management.

The Authority has referenced that it ceased on 31 March with the transfer of activities to the new unitary.

### Concluding comments

### Auditor commentary

The requirement for local authorities is that the financial statements are prepared on a going concern basis unless there is an intention by government that the services provided by the authority will no longer be provided. An intention by government to transfer services from one authority to another (for example, as part of local government reorganisation) does not negate the presumption that the authority is a going concern.

In our view it is appropriate for the Authority to prepare its accounts on a going concern basis.

### Auditor commentary

- Our audit procedures have not identified any indication that a material uncertainty in relation to going concern should be disclosed.
- We are satisfied that the Authority has included appropriate disclosures in relation to local government reorganisation in Dorset in its financial statements.

### Auditor commentary

We have not identified any issues in relation to going concern.

# Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
① <b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Joint Audit Committee and not been made aware of any issues. We have not been made aware of any other incidents in the period and no issues have been identified during the course of our audit procedures.</li> </ul>
② <b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We are not aware of any related parties or related party transactions which have not been disclosed.</li> </ul>
③ <b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.</li> </ul>
④ <b>Written representations</b>	<ul style="list-style-type: none"> <li>A letter of representation has been requested from the Authority, which is included in the Audit and Governance Committee papers.</li> </ul>
⑤ <b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We requested from management permission to send confirmation requests to the Authority's bankers and valuation expert. This permission was granted and the requests were sent with all of these requests returned with positive confirmation.</li> </ul>
⑥ <b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements</li> </ul>
⑦ <b>Audit evidence and explanations/significant difficulties</b>	<ul style="list-style-type: none"> <li>All information and explanations requested from management was provided. We have held discussions with management regarding processes to ensure a review of valuation date and market movements in the value of assets is considered in more detail.</li> </ul>

## Other responsibilities under the Code

Issue	Commentary
① <b>Other information</b>	<ul style="list-style-type: none"> <li>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 Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</li> </ul> <p>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to Appendix E.</p>
② <b>Matters on which we report by exception</b>	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> <li>If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit</li> <li>If we have applied any of our statutory powers or duties</li> </ul> <p>We have nothing to report on these matters.</p>
③ <b>Specified procedures for Whole of Government Accounts</b>	<p>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.</p> <p>Work is not required as the Authority does not exceed the £500m threshold as specified by the NAO.</p>
④ <b>Certification of the closure of the audit</b>	<p>We intend to certify the closure of the 2018/19 audit of Christchurch Borough Council in the audit opinion, as detailed in Appendix E.</p>

# Value for Money

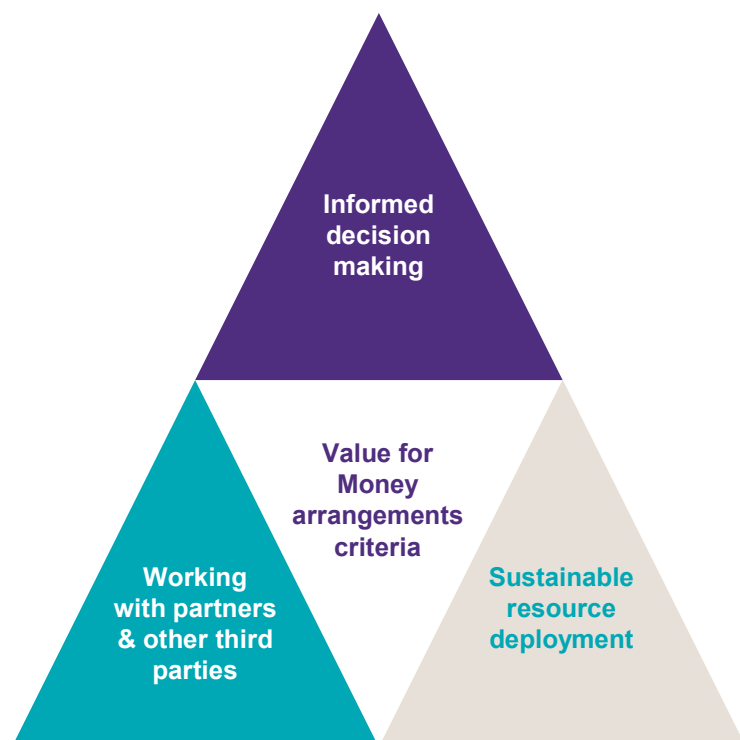
## Background to our VFM approach

We are required to satisfy ourselves that the has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the . In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 identifies one single criterion for auditors to evaluate:

*"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."*

This is supported by three sub-criteria, as set out below:



## Risk assessment

We carried out an initial risk assessment in January 2019 and identified no significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated this to you in our Audit Plan dated March 2019.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any significant risks where we need to perform further work.

# Value for Money

## **Our work**

AGN 03 requires us to disclose our views on significant qualitative aspects of the Authority's arrangements for delivering economy, efficiency and effectiveness.

Although our Audit plan did not identify any significant risks in respect of the Authority's arrangements, we have focussed our review on the Authority's delivery of its planned budget and evidence to support delivery of key performance priorities during this final year.

On 31 March 2019 the Authority ceased and the majority of its services, assets and liabilities transferred to the newly vested Bournemouth, Christchurch and Poole Council (BCP) on 1 April 2019. The Authority has performed well during the year, the outturn position was £562,000, higher than budgeted and the Authority bequeaths a stable financial legacy to the new BCP Council .

## **Overall conclusion**

Based on the work we performed, we are satisfied that the Authority had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The text of our report, which confirms this can be found at Appendix E.

## **Significant difficulties in undertaking our work**

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

## **Significant matters discussed with management**

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

# Independence and ethics

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. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

## Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority. The following non-audit services were identified which were charged from the beginning of the financial year to the end of July, as well as the threats to our independence and safeguards that have been applied to mitigate these threats. This work will be carried out in the autumn.

	Fees £	Threats identified	Safeguards
<b>Audit related</b>			
Certification of Housing Benefit Subsidy Claim	9,750	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 £9,750 in comparison to the total fee for the audit of £32,516 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.

These services are consistent with the Authority's policy on the allotment of non-audit work to your auditors. All services have been approved by the Joint Audit Committee. None of the services provided are subject to contingent fees.

# Follow up of prior year recommendations

We identified the following issues in the audit of Christchurch Borough Council's 2017/18 financial statements, which resulted in a recommendations being reported in our 2017/18 Audit Findings report.

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
<p>1</p> <p>X</p>	<p><b>Movements in valuation of land and buildings</b></p> <p>The Authority instructs the District Valuer to revalue land and buildings on a rolling five year programme. The Code requires that where assets are subject to revaluation, the year end carrying value should be consistent with the appropriate current value at that date. The Authority has adopted a rolling revaluation approach which sees all land and buildings revalued over a five year cycle. As a result of this, however, individual assets may not be revalued for four years.</p> <p>Although the Authority generally revalues its assets over a shorter period and undertakes an annual review to identify any assets which may have been subject to a material movement in value the risk remains that the carrying value of those assets not revalued in year differs materially from the year end current value. As valuations are carried out as at 1 April 2017, there is a risk that for assets valued during the year the carrying value at year end does not reflect the current value as at 31 March 2018.</p>	<p>The Authority continues to undertake a rolling programme of revaluations with the majority of in year asset valuations undertaken at 1 April. The Authority should also supplement the work undertaken in this area by undertaking an exercise to quantify the impact of market movements on the value of its assets during the year to identify where material movements may have occurred.</p> <p><b>Management response</b></p> <p>Bournemouth Christchurch and Poole Council is undertaking a review of its valuation processes including the date of future revaluations.</p>	

## Assessment

- ✓ Action completed
- X Not yet addressed

# Audit Adjustments - Adjusted

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 and the reported net expenditure for the year ending 31 March 2019.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
<p><b>1 Potential impact of the McCloud judgement</b> The legal ruling around age discrimination (McCloud - Court of Appeal) has implications for pension schemes where transitional arrangements on changing benefits have been implemented.</p> <p>The Authority has received an estimate from its actuary of the potential impact of the McCloud ruling. The actuary's estimate was of a possible increase in pension liabilities of £436k. Management has adjusted the pension liability for this figure and has made a corresponding entry to the pensions reserve.</p> <p>The increase in service costs has been treated as an increase to actuarial losses on pensions assets/liabilities rather than as an increase in service costs. This treatment results in an unadjusted classification error in the financial statements.</p>	436	436	
<b>Overall impact</b>	<b>£436</b>	<b>£436</b>	<b>£436</b>

## Misclassification and disclosure changes

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

<b>Disclosure</b>	A small number of minor disclosure changes were identified, which were amended by management.	✓
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# Audit Adjustments - Unadjusted

## Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2018/19 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	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
1 Impact of the McCloud judgement on service costs	436	-	0	The impact is not material and is a classification error. The entry is reversed through the MIRS and has no overall impact.
<b>Overall impact</b>	<b>£436</b>	<b>£nil</b>	<b>£nil</b>	

# Fees

We confirm below our final fees charged for the audit and provision of non-audit services.

## Audit Fees

Our Audit Plan included a PSAA published scale fee for 2018/19 of £32,516. Our audit approach, including the risk assessment, continues as the year progresses and fees are reviewed and updated as necessary as our work progresses.

## Update to our risk assessment – Additional work in respect of the audit code

The table below sets out the additional work which we have undertaken to complete the audit, along with the impact on the audit fee where possible. These are issues affecting all local government bodies and do not reflect issues arising at the Authority. Please note that these proposed additional fees are estimates based on our best projection of work and will be subject to approval by PSAA in line with the Terms of Appointment.

## Additional Audit Fees

Area of work	Timing	Comment	£
Assessing the impact of the McCloud Ruling	June – July 2019	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we considered the impact on the financial statement along with any audit reporting requirements. This included consultation with our own internal actuary in their capacity as an auditor expert.	1,500
Pensions – IAS 19	June - July 2019	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year.	1,500
PPE Valuation – work of experts	June - July 2019	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE Valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	1,500

## Total Audit Fees

Audit fee	Actual 2017/18 fee £	Planned 2018/19 fee £	Final 2018/19 fee £
Council Audit	42,281	32,516	32,516
Additional Audit Fees (see above)	-	-	4,500
<b>Total audit fees (excl VAT)</b>	<b>42,281</b>	<b>32,516</b>	<b>37,016</b>

## Non Audit Fees

Fees for other services	Fees £
<b>Audit related services:</b>	
• Certification of Housing Benefit (estimate)	9,750
<b>Total fees for other services</b>	<b>9,750</b>

# Audit opinion

We anticipate we will provide the Authority with an unmodified audit report

## Independent auditor's report to the members of Bournemouth Christchurch and Poole Council in respect of Christchurch Borough Council

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Christchurch Borough Council (the 'Authority') for the year ended 31 March 2019 which comprise the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, notes to the Core Financial Statements, the Collection Fund and notes to the Collection Fund, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2019 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Financial Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

## Emphasis of Matter - Local Government Reorganisation in Dorset

We draw attention to the disclosures made in note 7 to the core financial statements concerning local government reorganisation in Dorset. As stated in note 7, the Authority ceased to exist from 1 April 2019 on the creation of two new unitary authorities in Dorset and from 1 April 2019, the Authority's services, functions, assets and liabilities transferred to Bournemouth, Christchurch and Poole Council. Our opinion is not modified in respect of this matter.

#### Other information

The Chief Financial Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Report and the Annual Governance Statement, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

#### Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

#### Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

# Audit opinion (continued)

## Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

## Responsibilities of the Authority, the Chief Financial Officer and Those Charged with Governance for the financial statements

As explained more fully in the Responsibility for the Statement of Accounts set out on pages 12 to 13, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Financial Officer. The Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Financial Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit and Governance Committee of Bournemouth, Christchurch and Poole Council as successor body to Christchurch Borough Council is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

### Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

### Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

### Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

### Report on other legal and regulatory requirements - Certificate

We certify that we have completed the audit of the financial statements of the Christchurch Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

### Use of our report

This report is made solely to the members of Bournemouth, Christchurch and Poole Council, as a body, in respect of Christchurch Borough Council in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members of Bournemouth, Christchurch and Poole Council, those matters we are required to state to them in an auditor's report in respect of Christchurch Borough Council and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Bournemouth, Christchurch and Poole Council and the members of Bournemouth, Christchurch and Poole Council as a body, for our audit work, for this report, or for the opinions we have formed.



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