Grant Thornton

The Audit Findings for Bournemouth Christchurch and Poole Council

Year ended 31 March 2020

November 2020

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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Bournemouth Christchurch and Poole Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2020 for those charged with governance.

Covid-19 and LGR

The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the group and Council, including carrying out a pivotal role in supporting local people and business through the administration of central government grant funding to businesses, ensuring front line carers were appropriately equipped, the closure of schools, staff redeployment, securing accommodation for rough sleepers, the provision of critical services during lockdown and the additional challenges of reopening services under new government guidelines.

In common with other resort towns, the easing of lock down restrictions and the restriction on foreign travel and good weather, brought further challenges, managing a significant influx of visitors over the summer with illegal parking, littering and anti social behaviour.

Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the target date for audited financial statements to 30 November 2020.

BCP Council was formed on the 1 April 2019, from the bringing together of the former Bournemouth Borough Council, Christchurch Borough Council and Borough of Poole, together with the upper tier services including schools and social care administered for the Christchurch area by the former Dorset County Council.

This represents a significant challenge for the Council, compounded by the delays in receiving approval from central government for the reorganisation, reducing the time available for the Council to implement the necessary processes and changes required.

Covid 19 has impacted on the Council's financial position, the Council has needed to continually assess the impact on its finances and the budget for 2020/21 and the medium-term financial plan.

The work associated with addressing local government reorganisation and the impact of Covid-19 has had a significant impact on the capacity of the Council and as the Council has focussed rightly on managing its finances and the impact of the pandemic, this has impacted on officers' ability to focus on the highly demanding task of producing first-year financial statements and responding to auditor queries.

We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued and reported our considerations in the audit plan on 30 July 2020. In our plan we reported a financial statement risk in respect of Covid -19 and highlighted the impact on our VfM approach. The transfer of opening balances to the new Council was also identified as a significant risk.

Restrictions for non-essential travel has meant both Council and audit staff have had to work remotely, including the remote accessing of financial systems, video calling, and verifying the completeness accuracy of information produced by the entity through screensharing.

The absence of a final opening balance position and clear predicted outturn, reduced our ability to undertake substantive audit work early in the year, requiring the majority of work to be undertaken in the final accounts period.

The Council prepared its financial statements in line with the revised closedown timetable and these were presented for audit on 29 July 2020.

In many areas the Council continues to operate the legacy councils' systems, resulting in a significantly increased level of complexity and work required to both produce the accounts and undertake the audit. This has ultimately made this the most complex audit in our national portfolio for 2019/20.

Our initial review of the financial statements in August, identified a number of errors and omissions, including those effecting the Income and Expenditure Statement and the Expenditure and Funding Analysis note which required revision and impacted on our ability to select samples for testing. However these were of a presentational and technical accounting nature and did not affect the Council's financial outturn.

The complexity of the underlying financial systems has also made the sampling process more time consuming.

The financial statements were submitted in advance of the 31 August deadline. Subsequent audit work identified technical accounting and presentational amendments required to the pensions note, investment properties, financial instruments, related parties ad group accounts. Revised financial statements were resubmitted for audit on 13 October 2020, but the amendments impacted on the efficiency of our audit work.

Headlines

Financial Statements

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

- give a true and fair view of the financial position of the group and Council and the group and Council’s income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work commenced during August, however due to the complexities inherent in this first year and the impact of Covid-19, the work remains ongoing. Audit adjustments to date are detailed in Appendix B. Our follow up of recommendations from the prior year’s audit are detailed in Appendix A.

We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation. The financial statements we have audited is up until 31 March 2020 which was prior to the main financial impact of the Covid-19 pandemic.

Based on the work concluded to date, our anticipated audit report opinion will be unqualified including an Emphasis of Matter paragraph, highlighting PPE valuation material uncertainties.

Headlines

This table summarises the key findings and other matters arising from the statutory audit of Bournemouth Christchurch and Poole Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2020 for those charged with governance.

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 Council 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 Council's value for money arrangements. We have concluded that Bournemouth Christchurch and Poole Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We have updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VfM risks in relation to Covid-19. We therefore anticipate issuing an unqualified value for money conclusion, Our findings are summarised on pages 29-34.
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 and complete our work in respect of Whole of Government Accounts.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

Audit approach

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 are presented to 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 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 group's business and is risk based, and in particular included:

- An evaluation of the group's internal controls environment, including its IT systems and controls. The findings from our IT review are included in Appendix D;
- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that specified audit procedures for land and buildings and heritage assets was required for the Council's three subsidiary charities. The work was undertaken by the audit team.

Audit approach (continued)

- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter our audit plan, as communicated to you on 30 July 2020.

Conclusion

At the time of issue, there remains outstanding work in progress including sample testing of transactions and work to support the valuation of property assets. We will issue an updated reported to the January Audit and Governance Committee. Based on the work completed to date and subject to the correction of errors identified in the valuation of property assets we anticipate issuing an unqualified audit opinion. Our audit opinion will include an emphasis of matter paragraph reflecting the uncertainty in property valuations identified by the Council's valuers arising from Covid 19 and potentially an uncertainty in respect of assets held by the Dorset Pension Fund.

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 levels have reduced slightly from those reported in the Audit Plan. The planning materiality was based on an estimate of gross expenditure and has been revised to reflect the actual outturn. We have also determined a lower level of materiality for senior officers' remuneration.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	11,180,000	11,120,000	1.3% of gross expenditure
Performance materiality	8,385,000	8,340,000	75% of materiality
Trivial matters	600,000	600,000	5% of materiality
Materiality for senior officers remuneration	100,000	100,000	Lower level of precision for detecting errors in these specific accounts

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Covid-19 The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to; • Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation. • Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates. • Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and • Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.	In response to this risk we completed the following; • Met regularly with management to understand the implications the response to the Covid-19 pandemic has on the organisation's ability to prepare the financial statements and update financial forecasts and assess the implications on our audit approach. • Liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arose. • Evaluated whether sufficient audit evidence using alternative approaches could be obtained for the purposes of our audit whilst working remotely. • Evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances. Outstanding procedures • Evaluate management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment. • Evaluate the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic including any disclosures required in respect of pension fund assets. **Findings** Local Government reorganisation has had a significant impact on the complexity of the accounts. The need to reassess budgets in the light of the considerable uncertainty brought about by Covid- 19 has impacted on finance staff ability to respond swiftly to audit queries and provide revised accounts suitable for audit. The impact of remote working has more generally reduced the efficiency of the audit process more widely, requiring more time to complete procedures.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
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 BCP Council, mean that all forms of fraud are seen as unacceptable	Our consideration that this is not a significant risk for BCP Council remains unchanged from our Audit Plan.

Significant audit risks continued

Risks identified in our Audit Plan	Auditor commentary
Management override of controls Under ISA (UK) 240, there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates, and transactions outside the course of business as a significant risk for the group, which was one of the most significant assessed risks of material misstatement.	We: • Evaluated the design effectiveness of management controls over journals; • Analysed the journals listing and determined the criteria for selecting high risk and unusual journals; • Tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration, and considered the impact of IT control weaknesses within this testing (refer to page 19); • Gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence; and • Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. The Council uses Oracle Fusion for its general ledger, this is a complex system and required a review by our IT audit function. This review identified a number of significant deficiencies. We have had to spend extensive amounts of time obtaining journal listings which resulted in using data downloaded onto 24 separate spreadsheets The issues identified by our IT team are detailed in Appendix D and required additional audit procedures to be undertaken to gain assurance over journals. **Findings** Subject to completion of outstanding procedures, there are no issues to bring to your attention. We are aware that streamlining systems is a key part of the transformation programme, however until this is effected, the accounts and audit process will remain lengthy and complex.

Significant audit risks continued

Risks identified in our Audit Plan	Auditor commentary
Valuation of pension fund net liability The pension fund net liability, as reflected in the Council's 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 (£763m) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	We: • Updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluated the design of the associated controls; • Evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • Assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • Assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • Tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • Considered the impact of Covid-19 in the net assets statement; and • Undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performed additional procedures suggested within the report. In particular, reviewing the adjustments made as a result of the McCloud judgement and considering the impact of the 'other experience' adjustment arising from the updating of member data as part of the 2019 triennial actuarial update. **Findings** We are awaiting responses to our audit queries from the auditor of Dorset Pension Fund, however subject to completion of outstanding procedures, there are no issues to bring to your attention.

Significant audit risks continued

Risks identified in our Audit Plan	Auditor commentary

Valuation of land and buildings, council dwellings and investment properties
 	
The Council re-values its land and buildings on a five-yearly rolling basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements due to the size of the numbers involved (£702m) and the sensitivity of the estimate to changes in key assumptions.
 	
Additionally, management will need to ensure the carrying value of assets not revalued as at 31 March 2020 in the Council's financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used.
 	
Council dwellings (£597m) and investment properties (£97m) were revalued at 31 March 2020.
 	
We identified the valuation of these assets, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.
	We:
	• Evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;
	• Evaluated the competence, capabilities and objectivity of the valuation experts;
	• Discussed with and wrote to the valuers to confirm the basis on which the valuation was carried out;
	• Engaged our own valuer expert, Montague Evans, to provide commentary on:
	    • the instruction process in comparison to requirements from CIPFA/ IFRS / RICS;
	    • the valuation methodology and approach, resulting assumptions adopted and any other relevant points; and
	    • a detailed review of each valuation methodology for reasonableness.
	• Challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding;
	• Tested revaluations made during the year to see if they had been input correctly into the Council's asset register; and
	
	Outstanding procedures
	• Evaluating the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.
	• Our testing of revalued assets requires us to review the floor areas and other base data used by the valuer to determine the value of the assets and the detailed review of valuation methodologies is not yet complete.
	• The work of our external valuation experts remains ongoing.
	
	Findings
	
	The Council's asset base consists of the legacy balances transferred from the former Bournemouth, Christchurch and Poole Councils, together with £34m of land and buildings transferred from the former Dorset County Council. The Council continues to operate separate housing revenue accounts for the Bournemouth and Poole neighbourhoods with the Poole neighbourhood being managed by Poole Housing Partnership Ltd, a subsidiary arms length management organisation of the Council.
	
	In this first year of operation and reflecting capacity within the Council and to capitalise on existing knowledge, the valuers instructed to undertake the valuations work mirrors for the most part the arrangements in place at the legacy councils. The Council instructed five valuers to value its asset base. This resulted in a significant amount of additional audit work required in our audit process.
	The Council has three fixed asset registers, one is managed by Poole Housing Partnership and we experienced some difficulties in reconciling this register to the amount disclosed in the financial statements.

Significant audit risks continued

Risks identified in our Audit Plan	Auditor commentary
	Our testing of the revaluation entries made and the reconciliation of the asset registers to the valuers report identified that the capital expenditure on assets incurred during the year on assets subsequently revalued at the year end had not been correctly transferred to the revaluation reserve resulting in the year end value of land and buildings assets and the Bournemouth council dwellings being overstated by £3m and £8m respectively. The result of this work identified a potential £11 m net reduction to the value of land and buildings and council dwellings, which is supported by a £11m debit to the CIES (which is reversed out of the CIES in the Movement in Reserves Statement, so there is nil impact to usable reserves) and a £11m credit to the revaluation reserve. We are in the process of reviewing the updated fixed asset register and proposed accounting entries for this adjustment. The audit of the legacy councils identified a number of issues in the prior year and progress has been made by the new Council to address these findings, including moving the valuation date from 1 April to 31 March. This move in valuation date resulted in the error noted above. The Council has also implemented further checks and controls over the valuation process which are detailed on page 38. In the valuation reports prepared by all valuers, they have confirmed that as a result of Covid-19 less weight can be attached to market evidence for comparison purposes to inform opinions of value. At the balance sheet date, the valuer was faced with an unprecedented set of circumstances on which to base a judgement and as such the valuations have been reported on the basis of 'material valuation uncertainty'. The Council has reflected this uncertainty in Note 5 to the financial statements. The emphasis of matter paragraph does not qualify the opinion but will refer to the matter of the disclosure on the material uncertainty stated by the valuer included in the financial statements that, in our judgement, is of such importance that it is fundamental to users' understanding of the financial statements.

Other audit risks

Risks identified in our Audit Plan	Auditor commentary
Opening balances 2019/20 is the first year of operation for the Council, the merger of the systems and activities of the three predecessor councils as well as the upper tier services, assets and liabilities transferred from the former Dorset County Council creates many challenges. On creation on 1 April 2019, the Council's opening balances are the closing balances of the predecessor councils and assets and liabilities transferred from the former Dorset County Council. We therefore identified transfer of opening balances to the new Authority as a significant risk, which was one of the most significant assessed risks of material misstatement.	We: • updated our understanding of the processes and controls put in place by management to ensure that the opening balances are transferred correctly to the new Council; • agreed the assets and liabilities transferred to agreement with the former Dorset County Council; and • sample tested of opening balance for existence and to land registry documents. Elements of this work remain ongoing. **Findings** Our testing to date identified that as part of the work undertaken by the Council to align the accounting policies of the legacy councils a number of adjustments were made to opening the opening balances transferred. This included £4.3 million of land and buildings classified as investment properties in the accounts of Christchurch Borough Council, which were transferred to land and buildings under the policies adopted by the new Council and a small number of adjustments between grants received in advance and reserves. These were treated incorrectly as an adjustment to opening balances rather than as an in year transfer. The Code requires that where an authority is created under a machinery of government change, a note is included in the accounts setting out the opening balances transferred. The draft accounts included this disclosure on the face of the balance sheet. This has now been amended and is included as note 1a to the accounts.

Significant findings – other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue	Commentary
IFRS 16 implementation has been delayed by one year Although the implementation of IFRS 16 has been delayed to 1 April 2021, audited bodies still need to include disclosure in their 2019/2020 statements to comply with the requirement of IAS 8 para 31. As a minimum, we would expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases	In our review of the Council's accounting policies we identified that the disclosure in relation to IFRS 16 was omitted from the draft accounts. **Recommendation** In finalising assessment of the impact of IFRS 16, in preparation for its implementation, the Council must ensure completeness of the assessment of leases so that all relevant leases are included in the assessment

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Council Housing - £597m	The Council owns 9,657 dwellings including those in shared ownership and is required to revalue these properties in accordance with DCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council continues to operate two neighbourhood housing revenue accounts. Bournemouth is managed by the Council, and Poole by Poole Housing Partnership Ltd ad wholly Council owned arms length management organisation. The Council has engaged its internal valuer to complete the valuation of these properties for Bournemouth and the Valuations Office Agency to value the Poole neighbourhood assets. The year end valuation of Council Housing was £597 m, a net increase of £8m from the opening position transferred to the Council of £589m. There was also a net increase of 26 dwellings between 2018/19 to 2019/20. The valuers' statement with regards to material uncertainty of property prices and valuations as a result of Covid-19 also applies to the Council's portfolio of dwelling properties.	• The Council's valuers last valued the entire housing stock on 31 March 2020 using the beacon methodology. Our work in this area remains ongoing. • We engaged our own valuer expert, Montague Evans, to provide commentary on the instruction process for the valuers, the valuation methodology and approach, and the resulting assumptions and any other relevant points. • We are carrying out completeness and accuracy testing of the underlying information provided to the valuer used to determine the estimate and have no issues to report at this time. • The valuation method remains consistent with the prior year. • We are reviewing valuation movements against local market data, which differs between the Bournemouth and Poole areas and compared a sample of council house values to similar properties in the local area. Poole showing a house price increase of 3.2%, whereas Bournemouth property prices exhibited a small decrease. We have reviewed independent sources of house price movements and are satisfied that the movements are supportable. A detailed check for a sample of individual properties is underway. • We have agreed the HRA valuation reports to the Statement of Accounts and fixed asset register.	TBC

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 estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Land and Buildings – Other - £702m	Other land and buildings comprises £364m of specialised assets such as schools and leisure centres and also includes the Bournemouth International Centre 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 (£91m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged NPS, its internal valuer and the Valuation Office Agency to complete the valuation of properties as at 31 March 2020 on a five yearly cyclical basis. 60% of total assets were revalued during 2019/20. The valuation of properties valued by the valuer has resulted in a net increase of £37m. Management has considered the year end value of non-valued properties, based on the market review provided by the valuer as at 31 March 2020, to determine whether there has been a material change in the total value of these properties. The increase in value of these assets resulting from this procedure was £15m. In order to ensure that the carrying value of these assets is not materially different from current value and adjustment has been made to the financial statements. The total year end valuation of other land and buildings was £702m, a net increase of £30m from the opening position at 1 April 2019 (£672m). In line with RICS guidance, the Council's valuers disclosed a material uncertainty in the valuation of the Council's land and buildings at 31 March 2020 as a result of Covid-19. The Council has included disclosures on this issue within its Key Judgements and Material Estimates note in the Statement of Accounts.	Our work in this area remains ongoing. • We have considered the independence of the Council's internal valuer and confirmed that he is sufficiently independent from the finance function to provide objective valuations. • We are carrying out completeness and accuracy testing of the underlying information provided to the valuer used to determine the estimate. • We are reviewing the process undertaken by management and its valuer to determine the increase in value resulting from the application of indexing to assets not formally revalued during the year. • We confirm consistency of the estimate against the Gerald Eve report, and reasonableness of the increase in the estimate. • We have agreed the General Fund valuation report to the Fixed Asset Register and to the Statement of Accounts – refer to page 12 for our findings.	TBC

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 estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Investment Property – £97m	Investment properties comprises a number of assets including three shopping centres, an industrial estate, student accommodation and a range of other assets held for the receipt of rental income. Investment properties are revalued annually by the Council's valuation experts at market value. The prescribed valuation basis for investment properties are fair value at the balance sheet date. In line with RICS guidance, the Council's valuer disclosed a material uncertainty in the valuation of the Council's investment properties at 31 March 2020 as a result of Covid-19. The Council has included disclosures on this issue in Note 5. The valuation of properties valued by the valuer has resulted in a net decrease of £24m, reflecting the impact of Covid 19 particularly on the Council's shopping centre investments.	Our work in this area remains ongoing. • We have considered the independence of the Council's internal valuer and confirmed that he is sufficiently independent from the finance function to provide objective valuations. • We are carrying out completeness and accuracy testing of the underlying information provided to the valuer used to determine the estimate. • The valuation method remains consistent with the approach taken by the predecessor authorities.	TBC

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 estimates and judgements

Accounting area	Auditor commentary - Internal Valuer
Land and buildings, council dwellings and investment property	We have used Montague Evans as our auditor expert to assess the valuer and assumptions made by the valuer – see table below for the work completed and our responses:

Area of review	Montague Evans comment	Audit team follow up	Assessment
Clarity of terms of engagement and instructions.	The Red Book requires that, at the outset of the instruction "All assumptions and special assumptions that are to be made in the conduct and reporting of the valuation assignment must be identified and recorded.	All assumptions and special assumptions are set out in the valuer's final valuation report.	Our work in this area remains ongoing
Is there a clear rationale/ approach provided to support the valuation methodology adopted for each asset category.	We are comfortable that the four classifications of valuation approaches have been set out in accordance with the Code.	N/A	Our work in this area remains ongoing
Reasons for changes in assumptions or methodologies employed from prior periods.	No assets changed measurement basis since they were last valued – understand the reason for change in measurement basis.	N/A	Our work in this area remains ongoing
Confirmation of MEA assumptions/ principles adopted and that conclusion can be supported. Confirmation that land values adopted in DRC valuations are satisfactorily evidenced.	Confirm if MEA adjustments have been made to arrive at DRC building values, where appropriate. Confirm that the valuer has undertaken market evidence research to ensure land values are kept up to date with market movements.	Our work includes review and challenge of the MEA assumptions, and review of evidence to support land values adopted for the sample of assets tested – no issues identified.	Our work in this area remains ongoing
Confirmation that asset lifting estimates appear reasonable and in accordance with the detailed guidance.	Check that the valuer has assessed remaining economic lives in accordance with the DRC Guidance Note.	The Council uses experts in its property services department to assess the useful remaining economic lives of its assets. This is undertaken annually. We have reviewed the changes to economic lives which appear reasonable.	Our work in this area remains ongoing
How has obsolescence been arrived at for DRC valuations?	Understand how the age and obsolescence has been calculated.	In our testing of DRC assets we compared the obsolescence factors used against the expected scale – no issues identified.	Our work in this area remains ongoing

Significant findings – key estimates and judgements

Accounting area	Auditor commentary NPS Ltd
Land and buildings and investment property	We have used Montague Evans as our auditor expert to assess the valuer and assumptions made by the valuer – see table below for the work completed and our responses:

Area of review	Montague Evans comment	Audit team follow up	Assessment
Clarity of terms of engagement and instructions.	The Red Book requires that, at the outset of the instruction "All assumptions and special assumptions that are to be made in the conduct and reporting of the valuation assignment must be identified and recorded.	All assumptions and special assumptions are set out in the valuer's final valuation report.	Our work in this area remains ongoing
Is there a clear rationale/ approach provided to support the valuation methodology adopted for each asset category.	We are comfortable that the four classifications of valuation approaches have been set out in accordance with the Code.	N/A	Our work in this area remains ongoing
Reasons for changes in assumptions or methodologies employed from prior periods.	No assets changed measurement basis since they were last valued – understand the reason for change in measurement basis.	N/A	Our work in this area remains ongoing
Confirmation of MEA assumptions/ principles adopted and that conclusion can be supported. Confirmation that land values adopted in DRC valuations are satisfactorily evidenced.	Confirm if MEA adjustments have been made to arrive at DRC building values, where appropriate. Confirm that the valuer has undertaken market evidence research to ensure land values are kept up to date with market movements.	Our work includes review and challenge of the MEA assumptions, and review of evidence to support land values adopted for the sample of assets tested – no issues identified.	Our work in this area remains ongoing
Confirmation that asset lifting estimates appear reasonable and in accordance with the detailed guidance.	Check that the valuer has assessed remaining economic lives in accordance with the DRC Guidance Note.	The Council uses experts in its property services department to assess the useful remaining economic lives of its assets. This is undertaken annually. We have reviewed the changes to economic lives which appear reasonable.	Our work in this area remains ongoing
How has obsolescence been arrived at for DRC valuations?	Understand how the age and obsolescence has been calculated.	In our testing of DRC assets we compared the obsolescence factors used against the expected scale – no issues identified.	Our work in this area remains ongoing

Significant findings – key estimates and judgements

Accounting area	Auditor commentary – VOA (Highcliffe Castle)
Land and Buildings –	We have used Montague Evans as our auditor expert to assess the valuer and assumptions made by the valuer – see table below for the work completed and our responses:

Area of review	Montague Evans comment	Audit team follow up	Assessment
Clarity of terms of engagement and instructions.	The Red Book requires that, at the outset of the instruction "All assumptions and special assumptions that are to be made in the conduct and reporting of the valuation assignment must be identified and recorded.	All assumptions and special assumptions are set out in the valuer's final valuation report.	Our work in this area remains ongoing
Is there a clear rationale/ approach provided to support the valuation methodology adopted for each asset category.	We are comfortable that the valuation approach has been set out in accordance with the Code.	N/A	Our work in this area remains ongoing
Reasons for changes in assumptions or methodologies employed from prior periods.	There has been no change in the assumption or methodology from the prior period.	N/A	Our work in this area remains ongoing
Confirmation of MEA assumptions/ principles adopted and that conclusion can be supported. Confirmation that land values adopted in DRC valuations are satisfactorily evidenced.	Confirm if MEA adjustments have been made to arrive at DRC building values, where appropriate. Confirm that the valuer has undertaken market evidence research to ensure land values are kept up to date with market movements.	Our work includes review and challenge of the MEA assumptions, and review of evidence to support land value adopted for this asset.	Our work in this area remains ongoing
Confirmation that asset lifting estimates appear reasonable and in accordance with the detailed guidance.	Check that the valuer has assessed remaining economic life in accordance with the DRC Guidance Note.	The Council uses experts in its property services department to assess the useful remaining economic lives of its assets. This is undertaken annually. We have reviewed the changes to economic lives which appear reasonable.	Our work in this area remains ongoing
How has obsolescence been arrived at for DRC valuations?	Understand how the age and obsolescence has been calculate.	In our testing of DRC assets we compared the obsolescence factors used against the expected scale – no issues identified.	Our work in this area remains ongoing

Significant findings – key estimates and judgements

Accounting area	Auditor commentary- VOA (Council dwellings- Poole neighbourhood)
Council Dwellings	We have used Montague Evans as our auditor expert to assess the valuer and assumptions made by the valuer – see table below for the work completed and our responses:

Area of review	Montague Evans comment	Audit team follow up	Assessment
Clarity of terms of engagement and instructions.	The Red Book requires that, at the outset of the instruction "All assumptions and special assumptions that are to be made in the conduct and reporting of the valuation assignment must be identified and recorded.	All assumptions and special assumptions are set out in the valuer's final valuation report.	Our work in this area remains ongoing
Is there a clear rationale/ approach provided to support the valuation methodology adopted for each asset category.	Council dwellings have been valued at market value adjusted for social housing use, in line with the guidance.	N/A	Our work in this area remains ongoing
Reasons for changes in assumptions or methodologies employed from prior periods.	No assets changed measurement basis since they were last valued – understand the reason for change in measurement basis.	N/A.	Our work in this area remains ongoing
Confirmation of the market values of properties and that the correct social housing discount factor has been applied.	Review the market value of properties against published data.	We have compared market data for a sample of council dwellings and assessed the use of the social housing discount factor.	Our work in this area remains ongoing

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Net pension liability – £763m	The Council's net pension liability at 31 March 2020 is £763m The opening liability was £745m) comprising the Dorset Pension Fund Local Government Pension Scheme and unfunded defined benefit pension scheme obligations. The Council uses Barnett Waddingham to provide actuarial valuations of the Council'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 2019. 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 £18m net actuarial loss during 2019/20.	• We have assessed the Council's actuary, Barnett Waddingham, to be competent, capable and objective. • We have performed additional tests in relation to accuracy of contribution figures, benefits paid, and investment returns to gain assurance over the 2019/20 roll forward calculation carried out by the actuary and have no issues to raise. • 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:	green

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.35%	2.35%	green
Pension increase rate	1.9%	Between 2%-1.8%	green
Salary growth	2.9%	Between 1.9%-2.9%	green
Life expectancy – Males currently aged 45 / 65	Pensioners 23.3 years Non pensioners 24.7 years Used CMI 2018 Model with long term improvement rate of 1.5% and a smoothing parameter of 7.	Scheme specific but would expect actuary to calculate using the CMI 2018 Model.	yellow
Life expectancy – Females currently aged 45 / 65	Pensioners 24.7 years Non pensioners 26.2 years Used CMI 2018 Model with long term improvement rate of improvement rate of 1.5% and a smoothing parameter of 7.		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

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Net pension liability – £763m **continued**		• The actuary has confirmed that they have updated the assumption using March 2019 triennial valuation data as opposed to using the estimated roll-forward approach from the 2016 triennial valuation, which gives assurance that more recent information has been used. • Following the full valuation in 2019 which is reflected in the year end liability, an experience item reflecting movements not reflected in the roll forward has resulted in a movement of £72 million. The reason for this was queried with the actuary and has been caused by movements in membership numbers not reflected in the 2016 valuation. • As part of the procedures we undertook to review the actuarial assumptions we performed additional procedures, in particular considering the impact of the McCloud judgement and considering the impact of the 'other experience' adjustment arising from the updating of member data as part of the 2019 triennial actuarial update. • We have confirmed the controls and processes over the completeness and accuracy of the underlying information used to determine the estimate. • We have confirmed there were no significant changes in 2019/20 to the valuation method. • We conducted an analytical review to confirm reasonableness of the Council's share of LGPS pension assets. • We have requested an assurance letter from the auditor of Dorset Pension Fund, pending completion of the audit of the Dorset Pension Fund audit, this has not yet been received. • Subject to receipt of the assurance letter and completion of outstanding procedures, our work confirms that the increase in the IAS 19 estimate is reasonable.	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).

Going concern material uncertainty disclosures

It has been a challenging year due to the Covid-19 pandemic and the impact of this has been administration of grants to businesses, the closure of leisure centres and car parks, with additional challenges of reopening services under new government guidelines and the need to free up capacity of teams to assist with additional workloads caused by the pandemic in addition to normal responsibilities. In common with all Local Authorities, the Council is facing significant challenges, but has reported a small underspend for 2019/20 and reserves set and has not needed to draw on reserves set aside to support financial resilience and costs arising from LGR. Management have undertaken an analysis of the potential financial implications of Covid-19 together with additional funding being provided. As at the 31 March 2020, General Fund reserves stood at £100m, with total usable reserves of £171m. Although in a strong financial position, it is anticipated that the Council will need to draw on financial reserves to balance the budget during 2020/21.

Going concern commentary	Auditor commentary
Management's assessment process	Management has undertaken their own assessment of going concern, reflecting the provisions in the 2019/20 Code of Practice section 3.4 (Presentation of Financial Statements) on the going concern accounting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, it would not therefore be appropriate for their financial statements to be prepared on anything other than a going concern basis. Management have also considered the following factors: • The financial impact of Covid-19. • The Council’s reserves position. • The impact of cost savings anticipated from items extensive transformation programme following local government reorganisation. • Budget monitoring reports and projected overspends; and • The Medium Term Financial Plan. which has been updated to reflect the changing position resulting from Covid-19 We have examined the 2020/21 budget, MTFS to 2023/24 and considered the planned savings proposals and transformation efficiencies for 2020/21 and 2021/22 in our review of the appropriateness of management’s use of the going concern assumption. In 2020/21 the Council expects to achieve a balanced budget, taking into account the additional costs/loss of income due to Covid-19 known at the present time. Additional funding from central government for income loss has supported this position and the Council has a planned use of £1.9 million of reserves **Conclusion** The Council has included Events after the Reporting Period disclosure in the Statement of Accounts in relation to the impact of Covid-19. We have not identified any material uncertainty about the Council’s ability to continue as a going concern. Our work to assess the impact of Covid-19 on the Council’s cash flows and financial position will continue until the financial statements are approved.

Significant findings – 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).

Going concern commentary	Auditor commentary
Work performed	We have viewed the Council’s financial assessment of the impact of Covid-19, cash flow forecasts, future financial plans and the We concur with managements assertion that no material uncertainty in relation to going concerns needs to be disclosed. Management are conscious of the need to remain responsive to emerging circumstances, whilst keeping sight of longer term strategic goals and transformation agenda envisaged from local government reorganisation which underpin future investment decisions from use of reserves.
Concluding comments	We are satisfied that the Council’s financial statements are appropriately prepared on a going concern basis, and that no further disclosure is required.

Other matters for communication

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	Auditor commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit and Governance Committee. We have not been made aware of any significant incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	Related party transactions are disclosed in note 30 to the financial statements. The Council had taken an overly transparent approach to reporting transactions where officers or members have disclosed an interest, even where these do not meet the definition of a related party transaction as set out in IAS 24. The Council had also omitted transactions with the charities where it is the corporate trustee. The note has been amended. We are not aware of any further related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	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.
Written representations	A letter of representation will be requested from the Council, including specific representations in respect of the group.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Council's banking, investment and borrowing institutions. This permission was granted and the requests were sent. All requests were returned with positive confirmation. We also received permissions to deal directly with he Council's valuer and actuary.
Disclosures	Our review of disclosures identified a number of disclosure errors and omissions. We also identified a number of disclosures which related to immaterial balances which have been removed. Further details can be found in Appendix B.
Audit evidence and explanations/significant difficulties	All information and explanations requested from management was provided. As previously reported, the Council has been stretched to deal both with local government reorganisation and the pandemic. This has impacted on the preparation and accuracy of the financial statements. Although the accounts were received at the end of July in line with the agreed revised timetable, there were a number of errors and omissions affecting our ability to select samples. The Council has also used five valuers to undertake valuations of its land, building, dwellings and investment properties. There are also three asset registers and some difficulties arose in reconciling the Poole neighbourhood asset register to the accounts. This has resulted in a significant level of additional work being required to complete our procedures. The Council is, in many areas, still operating legacy systems below its main ledger. This has again resulted in added complexity in the audit process.

Other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. Our work in this area is ongoing.
Matters on which we report by exception	We are required to report on a number of matters by exception in a numbers of areas: • 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 • If we have applied any of our statutory powers or duties We have nothing to report on these matters at this time.
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. As the Council exceeds the specified group reporting threshold of £500 million we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. This work has not been completed. The Council is also unable to complete the consolidation pack at the present time as it has not been set up on the central WGA system and is working to resolve this issue.
Certification of the closure of the audit	We are unable to certify the closure of the 2019/20 audit of Bournemouth, Christchurch and Poole Council in the audit report, until the work on the financial statements audit and WGA consolidation pack is complete.

Internal controls

The purpose of an audit is for the auditor to express an opinion on the financial statements. Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of internal control. The matters we identified during the course of our audit are set out in the table below. These and other recommendations, together with management, are included in the action plan at Appendix A.

	Assessment	Issue and risks	Recommendations
1	High	**Complexity of the financial systems** This is the first year of the bringing together of the three legacy Councils and incorporating the upper tier services for the Christchurch area. The first phase of LGR focussed on the delivery of services to residents and ensuring business as usual, however there remains a significant program of work to align the systems underpinning the financial statements. In many areas the Council continues to operate three legacy systems with different ways of working which has added considerably to the work required to both produce and audit the financial statements. The impact of Covid-19 reducing officer time available to respond to auditor queries and implement checks on the financial statements has also impacted on the efficiency of the audit process.	We are aware that the Council's transformation programme is working to address these issues, however this work needs to progress at pace to enable the process of accounts preparation and audit to be undertaken in a more efficient and timely manner in the future. **Management Response**:
2	High	**Land and building additions and the capital programme** Our testing of year end valuations identified £11 million of capitalised work on the Council's existing asset base that was recorded in addition to the asset valuation supplied by the valuer. Enquiries made of the valuer confirmed that the valuation supplied at 31 March 2020 considered all relevant information and this expenditure should have been written out of the accounts rather than treated as adding value.	Processes should be in place to ensure that valuations are accurately included within the financial statements. Management should consider what processes can be introduced to capture capital spend to inform the valuation process. **Management Response**:
3	MEDIUM	**Reconciliation of the Poole Neighbourhood Fixed Asset Register** The Council currently maintains three fixed asset registers covering general fund assets and separate registers for the Poole and Bournemouth neighbourhood fixed asset registers. These are brought together to generate the disclosures in the financial statements. We could not immediately reconcile the Poole neighbourhood fixed asset register to the financial statements. This is maintained by Poole Housing Partnership Ltd.	Management should ensure that all subsidiary fixed asset registers are reconciled to the financial statements and overall responsibility for this function is appropriately assigned. **Management Response**:

Value for Money

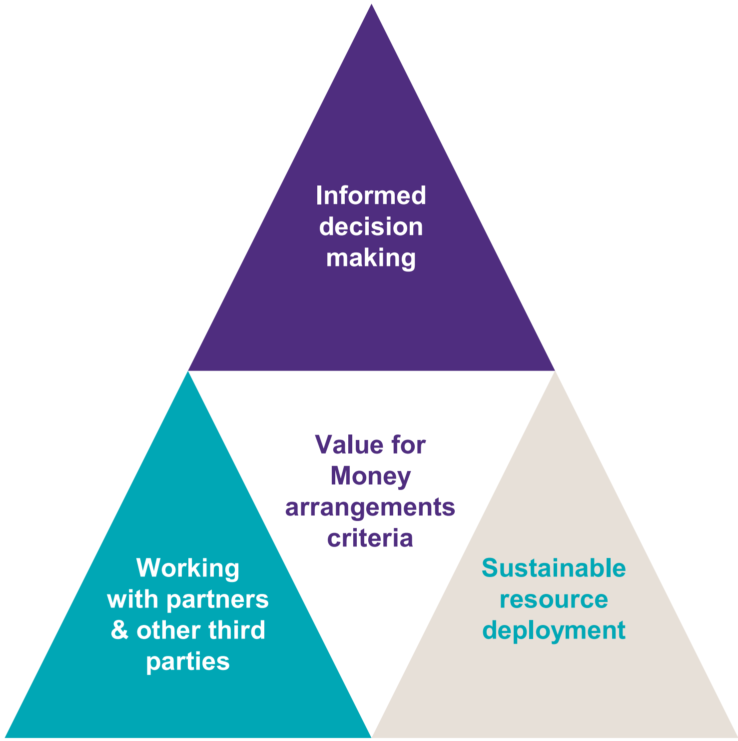
Background to our VFM approach

We are required to satisfy ourselves that the Council 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 Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. 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 2020 and identified a one significant risk in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated this risk to you in our Audit Plan dated July 2020.

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

We have not identified any new VfM risks in relation to Covid-19, although the impact to date has been considered in our work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Value for Money

Our work

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

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- The Council’s 2019/20 financial outturn;
- The robustness of the Council’s 2020/21 budget and Medium Term Financial Strategy, including savings and income proposals; and
- Progress towards transformation.

We have set out more detail on the risk we identified, the results of the work we performed, and the conclusions we drew from this work on pages 45-48.

Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council 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.

Value for Money

Significant Risk - Financial Sustainability

In addition to improving the delivery of services, local government reorganisation in Dorset aims to reduce costs and deliver efficiencies. The predecessor councils have historically performed well in managing their financial position although reductions in funding and increasing demand for services have made this increasingly challenging. The new Council has set a balanced budget for 2019/20 and 2020/21, however budget reporting has identified that savings and efficiencies of £20 million are required over the next two years to deliver this balanced budget.

The Council came into existence on 1 April 2019, from the merger of Bournemouth Borough Council, Christchurch Borough Council and Borough of Poole. In addition the new Council assumed responsibility for the upper tier services relating to the Christchurch area of the former Dorset County Council.

BCP Council had been operating in a shadow form during 2018/19, where the budget and Medium Term Financial Plan (MTFP) for the new Council were determined. The legacy councils had historically managed their finances well providing a firm footing to support the activities of the new Council. The opening general fund reserves of the new Council were £15.3m offset by £4.6m of DSG overspend with earmarked reserves of £84 million.

2019/20 Outturn

The Council published its outturn report at the end of July in line with its revised closedown timetable. The general fund outturn was a surplus of £0.2 million as budgeted and without the need to draw down on financial resilience contingencies and reserves set aside to manage uncertainties arising in this first year of operation.

This is an improved position on that anticipated at quarter 3, where the use of £2.7 million of financial resilience reserves was predicted and reflects in the main the impact of work undertaken to establish an opening balance position including a review of inherited debt and align accounting treatments in the new Council. As can be seen in Figure 1 overspends were incurred in children's services and regeneration and economy.

Covid-19 has had a significant impact on the Council with additional reported costs of £3.5 million in lost revenue in the main from car parking. These pressures were largely offset by favourable variances in other directorates however the main impact of Covid-19 will manifest over the coming periods.

Figure 1: General Fund – Summary – Outturn as at 31 March 2020

December Variances £000s		Approved Resources £000s	Outturn (net) £000s	Outturn Variance £000s
	Service Budgets			
960*	Adult Social Care & Public Health	108,377	107,508	(868)
2,540*	Children's Services	60,543	63,053	2,510
330	Regeneration & Economy	5,235	9,815	4,580
700	Environmental & Community	49,141	49,575	435
272	Resources	31,023	29,502	(1,521)
4,802	**Total Service Position**	**254,319**	**259,454**	**5,136**
	Corporate Budgets			
558	Investment Property Income	(5,507)	(4,829)	678
0	Pensions *(back funding)*	9,428	9,428	0
0	Repayment of debt (MRP)	9,274	8,456	(818)
0	Interest on borrowings	2,864	1,656	(1,207)
(110)	Investment Income	(185)	(412)	(227)
0	Revenue Contribution to Capital	2,244	2,244	0
0	Other Corporate Items	(727)	(1,754)	(1,026)
448	**Total Corporate Budgets**	**17,390**	**14,790**	**(2,601)**
5,250	**Total Budget excluding Contingency**	**271,709**	**274,244**	**2,535**
(2,536)	Use of Contingency	2,438	42	(2,396)
(2,714)	Use of Resilience Reserves	0	175	175
0	**Net Budget**	**274,147**	**274,462**	**315**
	Funding Budgets			
0	Council Tax Income	(209,612)	(209,612)	0
0	Parishes / Town Precepts	(545)	(545)	0
0	New Homes Bonus	(3,788)	(3,788)	0
0	Revenue Support Grant	(2,957)	(2,957)	0
0	NNDR Net Income	(47,408)	(47,537)	(129)
0	NNDR 31 Grants	(9,637)	(9,822)	(185)
0	Surplus on the Collection Fund	(200)	(200)	0
0		**0**	**0**	**0**

Value for Money

Budget setting and monitoring and Medium Term Financial Planning

2020/21 and beyond

At its first meeting in June 2019, the Cabinet approved its strategy for planning the 2020/21 budget, including the approval of an outline strategy to support the delivery of a balanced budget for 2020/21 and the design of a two year base budget review process to aid decision making to support budget setting. The MTFP agreed in February 2020 was subsequently refreshed in June as part of the base budget review process to include projections to 2023/24. Work has been ongoing through the year to further refine the budget and agree savings options.

A balanced budget was approved by Cabinet in February 2020. This preceded the Covid -19 pandemic which has had a significant impact on the Council and society generally. The Council reacted quickly to the crisis, with the establishment of a Corporate Incident Management Team and has reported monthly to Cabinet on the impact of the pandemic including the effect on finance and service delivery. The impact of Covid-19 on the Councils finances remains uncertain but is likely to have a continuing and significant effect on income levels including reduced rates and council tax collection and income from fees and charges. To support planning, different scenarios reflecting the impact of lockdown and other restrictions were profiled over three time frames. The Council demonstrates a good understanding of the impact of this evolving situation and arrangements in place to respond to all issues are considered good.

In the light of the emerging financial impact of the pandemic, Cabinet members and officers held budget meetings during April and May to develop the mitigation strategy to consider measures needed to balance the budget for 2020/21. In budget monitoring reporting to Cabinet in June 2020, it was noted that the Council had received £22 million of emergency funding from central government to cover projected additional costs and lost income of £52.3 million in the general fund with a resulting funding gap of £30.3 million. The report included a range of measures introduced to reduce expenditure not being incurred in support of the pandemic. This included temporary adjustments to services, continuing the vacancy freeze, bringing forward transformation savings and delaying projects. The residual gap would also need to be supported by the reprioritisation of reserves.

The Council is heavily dependent on income from fees and charges, which have been significantly impacted by the pandemic. The Council received an additional £3.2 million of emergency funding and has estimated that it will receive a further £12 million to compensate in part for the lost fees and charges income that is directly related to the pandemic. The Council will be able to submit three claims during the course of the financial year but must cover the first 5% of the budgeted amount for these losses, after which the government will compensate for 75% of the remaining loss. The exact amount receivable will not be known until the three payments on account are received and a final reconciliation and verification exercise is carried out by MHCLG after the year end.

The November budget monitoring report showed that due to anticipated and received central government funding and mitigating actions taken, the projected 2020/21 revenue outturn is for a balanced position, after potentially using £1.9 million of reserves, reducing the need to draw on reserves which are needed to finance the transformation programme however this is dependent on identified savings being delivered.

2021/22

Based on information available to date, the Council estimates that ongoing and recurring pressures means that it will need to make further savings of £13.4 million in addition to the £8.8 million of savings and £15 million transformation savings already identified in order to set a lawful balanced budget for 2021/22. The unprecedented level of uncertainty arising from the pandemic has been considered by the Council in drawing up its plans and a range of outcomes are under consideration. The lack of clarity means that the Council will need to continue to plan with little or no funding certainty over the medium term. Difficult decisions about which services to prioritise and protect, and which to reduce in order to balance the budget will need to be taken to continue to deliver affordable and sustainable budgets.

Key findings

Covid-19

Following publication of the MTFS and the 2020/21 budget, Covid-19 lockdown came into effect which has made the financial outlook for the Council challenging. The Council reacted swiftly to the pandemic and has kept its budget forecast for 2020/21 under review. A revised financial management framework was implemented in March 2020, bringing in new rules. Unless agreed by the Corporate Incident Management Team, expenditure could only be incurred if it directly supported the Council's response to Covid-19, unless it honours an existing contractual commitment, safeguards services to vulnerable members of the community or is funded entirely from an external source. A corporate wide vacancy freeze was also implemented.

The response to the pandemic has also put increased pressure on the Council, being at the front line of implementing government policy and supporting residents.

The Council initially planned against three lockdown scenarios, determining that a lockdown period of twenty four weeks was the most likely outcome. The Council's initial predictions in June 2020 identified potential budget pressures of £52.3 million as a result of Covid-19 for the 2020/21 financial year. These costs are in addition to the £3.5 million incurred in 2019/20. Cost pressures include additional support for adults' and children's social care, temporary accommodation for homeless people, personal protective equipment and excess deaths management. Income pressures have been identified relating to car parking, tourism, leisure centres and reductions in the amounts of business rates and council tax income that will be collected.

In the period since the year-end of the financial year, officers have put in place robust arrangements to ensure that risks and uncertainties are given due consideration in short and medium-term financial planning and the impact is effectively modelled to the best of their ability. Management have updated budgets for a number of income and expenditure scenarios and have updated their cashflow models.

The estimated pressures due to the pandemic have increased from £52.3 million gross of government grant (£30.3 million net) in the June report to £55.5 million gross (£18.2 million net) in September. The £3.2 million increase in gross pressures since June is largely due to children's social care, support for leisure centre and conference centre operators and the cost of safely opening up facilities post lock down. The Council has developed a range of savings to mitigate these cost pressures and has the ability to utilise reserves should this prove necessary.

To date the Council has received central government funding to directly support its activities of £ 37 million, including a current estimate of £12 million to mitigate against the loss of income from fees and charges. The Council will, however, need remain alert to the possibility of further lockdown measures. We deem that management's assumptions within their updated financial forecasts and financial strategy are prudent, assuming reductions in income across most revenue streams.

As a result of these Government Funding and initiatives, prior year underspends and prudent financial planning at the legacy council, including setting aside contingencies in the budget-setting process, the Council has sufficient resources in place to meet the expected shortfalls in income and increases in expenditure for 2020/21 arising from the Covid-19 pandemic and is not facing the kinds of challenging decisions in the immediate term around service cuts or Section 114 notices which other local authorities could be subject to.

In the medium term, the picture remains far more uncertain as the longer-lasting impact of the pandemic on the economy, in the context of wider financial risks beyond the control of officers or members, remain significant unknowns. One of the key positives arising from local government reorganisation is the ability for the Council to realise the benefits of economies of scale and drive forward an ambitious transformation agenda. Members will need to be mindful of the significant impact of Covid 19 on both the national and local economies and the need to maintain a prudent financial position when considering its future plans.

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Value for Money

Transformation

The key drivers underlying the LGR process has been to not only deliver improved and more joined up services to residents, but also by embracing new ways of working to deliver significant savings to support medium term financial sustainability.

LGR was envisioned as a three part process.

Phase 1 - To create the new authorities through the parliamentary process.

Phase 2 – Transition services safely and establish business critical systems and processes.

Phase 3 – Design and build the new organisation

Following the successful delivery of phases 1 and 2 the Council has moved forward with phase 3. This work as been facilitated by the use of external consultants to support the Council in this work. The first phase completed in 2019 has been to fully understand how the new Council operates and to consider what changes can be made to realise the benefits envisioned in LGR. A corporate plan has been developed setting out the Council's values, priorities and key actions and a base budget review undertaken at service level to analyse how services are currently delivered and to look at ways to further integrate and improve.

Work has continued during this first year to further implement plans. and the Council has commenced a procurement process to select a strategic partner that will work with the council to deliver the vision. Progress has also been made in key areas including estates strategy and the adult social care charging strategy.

The savings derived from the transformation programme are a key element of the Council's MTFP and efforts to deliver a balanced budget. £15 million of savings are included in the 2021/22 budget. The transformation programme is forecast to deliver up to £43.9 million in annual savings once fully implemented. It will form the single largest and most comprehensive response to addressing the budget pressures identified in the Council's MTFP, realising benefits through streamlining services, reducing third party spend and harmonising fees and charges.

The Council will fund this project through the flexible use of capital receipts, additional borrowing to fund the capital elements of the plan. Revenue elements will be funded through the use of reserves.

Overall Conclusion

Our overall view is that BCP Council has managed its first year of existence in an effective manner and throughout has been focused on ensuring its financial sustainability. The Council reacted quickly to the Covid 19 pandemic and has spent significant time focusing on measures to achieve financial sustainability. We believe members are fully aware of the risks that have impacted other councils and the dangers of running down reserves. The creation of BCP Council was very much about transformation and scale and driving efficiencies across a potential costal economic powerhouse, BCP was born with a lower level of reserves than some of its wealthier peers. Covid 19 represents an existential threat to the financial sustainability of many councils. Members should be aware at all times not to choose the pathways taken by those councils who have recently been the subject of a public interest report. Members have a fiduciary duty to maintain sound finance and not to take steps that would mortgage the future. Investment is certainly required to drive the new Council and its residents and business forward but this must be done in considered and balanced way.

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 May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix C

Independence and ethics

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 Council. The following non-audit services were identified which were charged from the beginning of the financial year to 8 November 2020, where not previously reported as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing capital receipts grant	4,000	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 £4,000 in comparison to the total fee for the audit of £196,000 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.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Certification of Teachers Pension Return	4,000	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 £4,000 in comparison to the total fee for the audit of £196,000 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.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Certification of Housing Benefit Claim	18,000	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 £18,000 in comparison to the total fee for the audit of £196,000 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.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

Independence and ethics

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 Council. The following non-audit services were identified which were charged from the beginning of the financial year to 8 November 2020, where not previously reported as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
Non-audit related			
CFO Insights Subscription	10,000	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 £10,000 in comparison to the total fee for the audit of £196,000 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 fees have not been reflected in the accounts because of the timing of CFO Insights The CFO insights service provides the Council with access to various data sources, which they decide how to use and make their own decisions about the delivery of services, therefore we do not believe there is an impact on the value for money conclusion.

These services are consistent with the group's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit and Governance 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 [insert client name] Council's 2018/19 financial statements, which resulted in [x] recommendations being reported in our 2018/19 Audit Findings report. *We are pleased to report that management have implemented all of our recommendations.*

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	Bournemouth Borough Council Management instruct an expert, a member of the Authority's in-house valuation team to undertake valuations of council dwellings and other land and buildings assets. A number of mathematical errors were identified in the valuation schedules provided to management by the valuer for both council dwellings and other land and buildings. A further review of all valuations undertaken during the year was carried out by a different valuation expert within the Council's property services department with no further discrepancies identified. We also identified that following a change in the instructions to the valuer, assets last subject to valuation in 2013/14 had been omitted from the valuation instruction. The errors identified reflect that management has not undertaken a review of property valuations provided by the valuer or made enquiries where valuations resulted in significant movements year on year or sought to challenge these movements.	BCP Council has introduced a more robust review of all external valuations by suitably qualified valuation experts within the estates department. Information to support valuation movements in excess of 10% have been included within the documentation provided for audit.
✓	Christchurch Borough Council and Borough of Poole We reported that both predecessor councils were not revaluing assets within their programme at 31 March.	BCP Council has instructed its valuation experts to revalue its assets at 31 March.

Assessment

✓ Action completed

X Not yet addressed

Audit adjustments (to date)

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 2020.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Pension interest income This was incorrectly credited to the Cost of Services Resources line in the financial statements, rather than being included in Financing and Investment income and expenditure.	+/-25,072	No impact	0
Property. Plant and Equipment Capital expenditure incurred on land and buildings and council dwellings was not reversed as part of the revaluation adjustment, resulting in the carrying value of these assets being overstated. Revaluation movements are reversed through the movement in reserves statement and have no impact on general fund reserves.	11,000	(11,000)	11,000
Overall impact	**£11,000**	**£11,000**	**£11,000**

Audit adjustments

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

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.

Disclosure	Detail	Auditor recommendations	Adjusted?
Balances transferred at 1 April 2019	The draft statements included details of balance transferred on the face of the balance sheet. The Code requires that this detail is disclosed in a note to the accounts.	The Council has made the necessary amendment.	✓
External auditor costs Note 27	The audit fee note has been amended to remove the reference to company audits not undertaken by Grant Thornton and to include details of the Council's CFO Insights subscription.	The Council has made the necessary amendment.	✓
Financial Instruments	The Council had calculated the fair values of its PWLB loans with reference to the premature repayment rate rather than the new loan rate. The fair value of the substantive loan from Prudential to purchase the Madeira Road student accommodation was omitted.	The Council has made the necessary amendment.	✓
Expenditure and Funding Analysis Note 3	Our testing of the IFRS 15 disclosure identified that £46,448k of education grants had been incorrectly classified as fees and charges rather that grant income received.	The Council has made the necessary amendment.	✓
Investment Properties Note 13	The investment properties note did not include all the required detail in respect of the type of investment and details of the fair value hierarchy used in the valuation process.	The Council has made the necessary amendment.	✓
Officers remuneration Note 25	The Council identified that benefits paid to the Chief Executive were understated by £8000.	The Council has made the necessary amendment.	✓
Related Parties Note 30	This note has been updated to reflect transactions with the Council's subsidiary charities. We also note that the Council has been overly transparent of its inclusion of entities as related parties within this note, where they do not meet the definition of a related party within the relevant accounting standards.	The Council has amended the note to include transactions with its subsidiary charities, but has not removed transactions with other entities not within the definition of a related party.	**Partial**

Audit adjustments

Disclosure	Detail	Auditor recommendations	Adjusted?
Group Accounts	A number of amendments have been made to the group accounts, including to heritage assets. Our audit work in this area remains ongoing.	The Council has made the necessary amendments to date	✓
Accounting Policies	A number of minor amendments have been made to accounting policies to more fully reflect the requirement of the Code.	The Council has made the necessary amendment.	✓
Assumptions made about the future and other estimation uncertainty	This note has been revised to include more detail of the impact of the uncertainties disclosed.	The Council has made the necessary amendment.	✓

Fees

We confirm below our final fees charged for the audit and provision of non-audit services, not previously reported.

Audit fees	Proposed fee	Final fee
Council Audit	160,000	196,000
Charitable Trust Audits	37,000	37,000
Total audit fees (excluding VAT)	**£197,000**	**£233,000**

The fees reconcile to the financial statements subject to the additional fees set out below

Council audit fees per the financial statements	£160,000
– Additional external valuers fees due to the number of valuers engaged by the Council	£15,000
– Covid-19 related additional fees	£21,000
Total fees per above	£196,000

Over the last six months the current Covid-19 pandemic has had a significant impact on all our lives, both at work and at home. The impact of Covd-19 on the audit of the financial statements has been multifaceted. This included:

- Revisiting planning- we have needed to revisit our planning and refresh our risk assessments, materiality and planning as well as additional work in areas such as going concern and disclosures in accordance with IAS 1 in particular in respect to material uncertainties.
- Managements assumptions and estimates - there is increased uncertainty over many estimates including investment and property valuations. Our audit opinion will include an emphasis of matter in respect of this.
- Remote working – the most significant impact of terms of delivery is the move to remote working. We, as have other auditors, have experienced delays and inefficiencies resulting from this new working environment. This is understandable and arise from the availability of relevant information, the need for us to devise alternative methods to evidence the veracity of the information provided and not being able to sit with an officer to discuss a query or a working paper. Obtaining an understanding via teams or telephone is often more time consuming.

We have been discussing the matter with PSAA over the last few months and these issues are similar to those experienced in the commercial sector and the NHS. In both sectors there is a recognition that audits will take longer with commercial deadlines expended by four months and the NHS deadline by one month. The FRC has also issued guidance to companies and auditors setting out its expectation that audit standards remain high and of additional work needed across all audits. The link attached https://www.frc.org.uk/about-the-frc/covid-19/covid-19-bulletin-march-2020 sets out the expectations of the FRC.

Please note that these additional proposed fees are subject to approval by PSAA in line with the terms of engagement.

Fees - Other audit and non audit related services

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services - Grant Claims	25,000	TBC
Non- Audit Related Services CFO Insights Subscription	10,000	10,000
Total non- audit fees (excluding VAT)	**£35,000**	**£XX,XXX**

Internal controls IT - Oracle Fusion Observations

	Assessment	Issue and risks	Recommendations
1	●	**Segregation of duty (SoD) threats due to Oracle system administrator accounts with elevated finance roles** We identified that the Finance Management Systems (FMS) Team with the IT Security Manager role also have elevated Finance roles assigned to them, which is a critical SoD conflict. Among the conflicting Finance roles assigned to these users we found AP Manager, AR Manager, Asset Manager, Cash Manager, GL Manager, Payroll Manager, Supplier Manager and Tax Manager. While we understand that the FMS team provide system support, elevated privileges to finance system roles should not be a standard profile for these users. These issues pose the following risk: Users with both system administration and other elevated finance access can perform unsegregated functions, increasing the risk of misstatement due to fraud or error.	Access to all Oracle functions and data should be based on a least privileged principle. We recommend that: a) Management undertake a review of all roles in use that are allocated to BCP Oracle Fusion users. The scope of this review should include BCP users and roles that have been copied from default roles. b) The review should also include appropriate consideration of conflicts created through assigning combinations of IT administrator and elevated business / financial access roles. Where a financial role is required to provide support for users, assignment of the role should be managed and for a limited period. c) If management is unable to segregate access for the users highlighted in the finding, consideration should be given to the risk created and whether additional compensatory controls (i.e. high-risk activity monitoring) are required. d) To monitor the risks arising, we also recommend that these are formally documented and periodically reviewed. **Management Response:** These roles are assigned within the FMS Team to enable carry out business admin functions and development/testing. Interfacing external systems with Fusion is an end user function of the FMS Team. Controls are in place to ensure that these roles are used appropriately. For example, end user functions are documented and records of the processing by the FMS Team are kept. The purpose of why each role is assigned to each user will be documented and kept under review as will the effectiveness of the controls in place.

Internal controls IT

	Assessment	Issue and risks	Recommendations
2	●	**FMS self-assigning Oracle roles without formal approval or subsequent timely removal** We identified 31 instances in the financial year when 7 users from the Finance Management Systems (FMS) Team self-assigned additional roles without recorded approval from management. The self-assigned access includes high risk roles such as Suppliers Administrator, BCP Capital Project Manager and BCP Supplier Manger which have not been subsequently reassessed for appropriateness and removed if no longer required. There is no process in place to document requests to self-assign responsibilities and obtain management approval. The additional privileges were not end dated nor removed. We also found that audit logs are not enabled to determine whether activities of these users were appropriate and that the additional access was not misused. These issues pose the following risk: i. Where self-assignments of additional access occur and there are no documented approvals / the access is not end dated following the completion of requirement the risk of bypass of system enforced access controls due to segregation of duties conflicts is significantly increased. This subsequently increases to the risk of fraud or misstatement. ii. Internal access to information assets and administrative functionality may not be restricted on the basis of legitimate business need.	a) Management should review current access processes so that where IT administrative staff require additional Oracle functionality, they are required to formally request this. b) The procedure to support this should include documented approval for the access assignment from a separate individual. c) Any such access granted should be required to be end-dated accordingly. d) Management should also review the self-assigned responsibilities occurring during since the system implementation and determine whether this access is still required. e) Management should implement periodic monitoring controls to identify instances where members of staff have assigned themselves additional roles and any non-compliance with the process described above should be investigated. **Management Response:** We will review all self-assigned roles and ensure that all are documented for purpose and duration. The assigned roles will be reviewed quarterly to ensure they are still required. All future roles to be added will require line manager approval.

Internal controls IT

	Assessment	Issue and risks	Recommendations
3	●	**SoD threats due to Oracle system administrator accounts with developer / implementation roles** The 14 active named system administrators (five administrators have two named accounts) are also assigned conflicting Application Implementation and Application Developer roles. We acknowledge that only Oracle has access to change source code, thus these named user accounts are limited to making configuration changes (e.g. changes to workflows). All users found to have these conflicts are members of the FMS Team, who 'sit' between Financial functional staff and ICT. Whilst Oracle Fusion allows for limited 'development' work for reports and review, the level of access in the application level (as some changes can affect data flows and processes) is deemed a risk and where there is no monitoring enabled (see item 6 below) nor formal monitoring of changes (see item 5 below). These issues pose the following risk: There is a risk that unauthorized changes may be made to the production system leading to loss of data integrity, processing integrity and/or system down-time.	Management should remove the ability of administrators to modify the production system or data and remove the application implementation and developer roles from their profiles. If management is unable to segregate access for this group of users, consideration should be given to the risk created and whether additional compensatory controls are required. For example, high-risk user activity monitoring (see Issue 6); formally supported, recorded and authorised change management process etc. (see Issue 5) **Management Response**: The FMS Team is responsible for both the admin and the limited development of the Oracle System. As identified, development capability is extremely limited and is focussed on configuration. The current modules in use (i.e. not full Payroll / HR) requires constant configuration/development access to maintain workflows for Procurement/Account Payables. On the topic of Control for example, any changes to approval rules are not initiated by the FMS Team. They required authorisation which is documented from the Service Director or Service Accountant.

Internal controls IT

	Assessment	Issue and risks	Recommendations
4		**Inappropriate critical security and configuration functions embedded in standard roles** Five users in the IT Security Roles have access to a privilege ‘impersonate roles’ through the ‘Application Implementation Manager’, ‘Application Developer’ and ‘Sales Administrator’ roles that allow them to log on to the application and conduct activities in another users name without leaving an audit trail relating to their own User Identifier (ID). Also, a member of the Procurement Team who was part of the original implementation team still has an IT Security role privilege set, which should have been rescinded once the project was complete. We have identified that this access has been removed since being identified through the audit process. We also found that the audit logs are not sufficient to determine whether activities of these users were appropriate except for Supplier Details. These issues pose the following risks: i. Bypass of system-enforced internal control mechanisms through inappropriate use of administrative functionality by making unauthorised changes to system configuration parameters, creation of unauthorised accounts, making unauthorised updates to their own account's privileges. ii. Internal access to information assets and administrative functionality may not be restricted on the basis of legitimate business need.	a) The ‘Impersonate User’ privilege should be removed from the application, or at minimum de-linked from the roles identified. b) Full audit logging and review processes should be introduced to monitor activities of all users with elevated privileges. (see Issue 6) **Management Response**: Access to the privilege to ‘impersonate roles' and the Procurement team member with the IT Security role have been removed. Audit logging is enabled for all changes to Supplier records. Data about who performed an action for “Payables Invoices” and “Journals” can be found in the main system. Audit logging on these items would not increase the understanding about who worked on these documents but would reduce performance.

Internal controls IT

	Assessment	Issue and risks	Recommendations
5	●	**Lack of formal documented change management processes and procedures at application level** There are no formally documented procedures nor processes to manage application level changes outside the FMS team mailbox. The evidence provided does not provide confirmation that any testing has been conducted outside the live system or that there has been any approval for the changes to be made. While we understand that the underlying system changes are managed by Oracle Cloud services, application level changes can impact on the system and users. These issues pose the following risks: i. Integrity of application processing, data, reports, and controls may become impaired through introduction of untested or improperly ii. Changes management may not be effectively administered, leading to loss of data integrity, processing integrity and/or system down-time.	Management should implement a formal change management process for Oracle Fusion application level changes. This should be commensurate with the level of acceptable risk. For example, at minimum, changes should be: • Assigned a 'category/type' including application and emergency changes (please see issue 3) to ensure that the appropriate approach is taking to assessing the change raised, gaining expenditure approval etc. • Recorded in either or service desk or a shared register with details of the individual raising it and what further approval is required etc. • Assigned a testing strategy (system, UAT etc). Testing should be consistent and appropriate according to the change type. • Individual sign-off and dates should be retained along with user approval to migrate into production. • Data migration plans, along with sign-off of any reconciliations performed by senior finance staff. • Rollback processes recorded. All supporting documentation should be retained so that it is available for future scrutiny. **Management Response**: Since the audit our process for testing the quarterly updates has been formalised using Teams to document all tests to be completed, who is assigned and any variation from expected result and additional information when further investigation is required. Prior to May 2020 testing documentation was more fragmented. Substantial changes required to implement the BCP FMS from that inherited from the legacy councils was managed through an FMS working group. This group used a detailed worklist to identify change projects, assign lead officers and produce progress updates. This group reported to S151 Officer and continues to manage major change to the FMS Team. Each individual project had its own project plan, testing plan and sign-off as appropriate. Ad-hoc / BAU changes are requested via the Oracle Fusion inbox and additional authorisation is sought if required.

Internal controls IT

	Assessment	Issue and risks	Recommendations
6	●	**Audit logs are not enabled on the Oracle application and database** Audit logging has not been enabled on Oracle Fusion except for Supplier monitoring and no security functions were being monitored. Also, we were informed that the logging that is conducted is only reviewed retrospectively if an issue is identified. These issues pose the following risk: Without formal, proactive, and routine reviews of security event logs, inappropriate and anomalous security activity (e.g., repeated invalid login attempts, activity violating information security policies) may not identified and/or addressed in a timely manner.	Management should review the configuration of audit logging in Oracle Fusion to ensure that meaningful information can be obtained from audit logs. This could include a review of key activities / tables to ensure that only high-risk areas are subject to audit logging. Additionally, audit logs for high risk areas / key database tables should be periodically reviewed. These reviews should be performed by one or more knowledgeable individuals who are independent of the day-to-day use or administration of these systems. **Management Response:** The configuration will be reviewed and meaningful information about key activities obtained. All available reports for high risk areas will be periodically reviewed by the FMS Team Manager.

Internal controls IT

	Assessment	Issue and risks	Recommendations
7	●	**Weak or non-compliant Oracle password settings** The Oracle Fusion password settings do not meet the Council's own minimum password requirements. The Council Information Security (IS) Policy states that passwords should be at minimum 9 characters and the last 3 passwords should be remembered. Oracle Fusion settings require a minimum 8-character password, which must include at least 1 uppercase and 1 numeral with 1 previous password being remembered. These issues pose the following risk: Compromise of user accounts through password guessing or cracking leading to fraud and financial misstatement.	We recommend that the Oracle Fusion passwords settings are changed to meet the Council's own IS password settings: - Password length should be set to 9 characters - Password history should be set to 3 **Management Response:** The Oracle System is unable to comply with the BCP password policy without enhancement being progress by Oracle. Currently the system will lock user accounts after 5 unsuccessful attempts. The system could be changed to add the requirement of using a special character. The implications of making this change will be reviewed.

Internal controls IT -

	Assessment	Issue and risks	Recommendations
8	●	**Lack of evidence to confirm Oracle Fusion Reconciliations are appropriately managed** The Council manages data processes outside the Fusion application using bespoke ASM packages which collate application data into GL, AP and Cash uploads on the Fusion servers. The data held on the servers prior to being uploaded into Fusion. The ASM packages are designed to collate and transform data into the acceptable format for the Fusion system and eliminate any erroneous data from the systems. We understand that once the data has been uploaded to Fusion any unmatched data is held in a suspense account, which is reviewed, and data is allocated manually to the correct accounts. However, no evidence has been provided of resolutions or approvals from application teams. (ASM systems manage data from all apps in the Council not just the in-scope systems.) Also, we have identified that the directory holding the upload data for the ASM cash uploads is accessible with full control for all Domain Users. We have been informed that a process to automate the data import from ASM packages to Fusion is being considered for 2020/2021. These issues pose the following risk: Updates made to general ledger accounts and subsidiary ledgers and related financial reporting may be erroneous and may undermine data integrity and hence financial statements.	Management should formalise and document the processes to allocate suspense data within Fusion. The process should include clear approval and authorisation routines prior to implementing any changes. Access privileges to all upload folders should be reviewed and restricted to appropriate, nominated, and authorised users. **Management Response:** Batch control at header level is a responsibility of the FMS Team and no batch is posted until all balancing issues are resolved. All reconciliations actions are documented. Suspense items are assigned based on attempted invalid codes or source system to a service accountancy team. Once suspense items are posted to the ledger, they become the responsibility of the service accountancy teams to identify the correct coding and to post journal corrections and keep documentation of the same. The directory that holds the upload data has been changed so that it now has limited access. It is no longer accessible to all domain users.

Internal controls IT - IT General Controls Review Observations

	Assessment	Issue and risks	Recommendations
9	●	**Privileged user access – Bournemouth Domain** We identified 286 Bournemouth accounts (User-ID's) prefixed with 'PAU_' which indicates Privileged Access User. Whilst 45 of these had been disabled, only one of these disabled accounts had been locked. The remaining 241 accounts were enabled. Historically, the 'PAU_' account was used by staff at Bournemouth Council to perform limited IT management processes such as installing software, resetting passwords etc. However, we have been unable to confirm whether that the elevated permissions have been removed from all these users We also identified 50 'ADM' accounts whilst 35 of these were disabled, only 31 of these 35 was 'locked'. These issues pose the following risks: Bypass of system-enforced internal control mechanisms through inappropriate use of administrative functionality by making unauthorised changes to system configuration parameters, creation of unauthorised accounts, making unauthorised updates to their own account's privileges.	We recommend that management review all users with a designated 'PAU_ 'and 'ADM' and remove any elevated privileges which are not appropriate for their role. The number of administrator accounts should be reduced to enable management to monitor more effectively those accounts with elevated accounts that remain. A review of these user's activities over the 19/20 audit period should be conducted to ensure that they have not made any system changes that would not be appropriate for their role. **Management Response:** The PAU list will be reviewed "by IT and Finance". We will ensure that all non-IT PAU accounts are identified. These will then be reviewed to ensure elevated permissions are commensurate with the privileges required under that account. Unused or obsolete accounts will be disabled or deleted.

Internal controls IT

	Assessment	Issue and risks	Recommendations
10	●	**SoD issues arising from system account management by local business teams** Security management of system accounts for both Radius Debtors and Capita Debtor's system are held by the local business teams that manage these applications and have additional privileges based upon their 'PAU' account designation, please see issue 9 above. Furthermore, Radius and Capita generic passwords managed by these local admin team who do not use the tool 'keypass' to safeguard these passwords. Finally, we have been informed that internal staff do not perform DBA activities. However, the 'aisdba' account is required to perform some activities (e.g. update permissions following an upgrade) and is accessed by the System Administration Team and members of IT. The password is reset based on the standard settings of the application (see Issue 14). Activity is not currently monitored although audit logs are available for review (see Issue 12). These issues pose the following risk: Bypass of system-enforced internal control mechanisms through inappropriate use of administrative functionality by making unauthorised changes to system configuration parameters, creation of unauthorised accounts, making unauthorised updates to their own account's privileges.	We recommend that management should: a) Remove access to system accounts from business/ functional teams and secure these accounts in the IT team's 'Keypass' repository. For Radius b) Review and reduce where practical the enhanced access privileges given to Radius Debtors administrators to reduce SoD conflict. For Capita: c) Review and reduce access to the Capita 'aisdba' account to a minimum number of users, where possible restrict to IT users only. d) Implement appropriate password management protocols. e) Implement monitoring activities. If the above is not possible, mitigating controls should be introduced instead. For example, enable security audit logging to monitor the use of these accounts. **Management Response:** The Radius Debtor System is managed by the Bournemouth Sundry Income Team. Without access to parameters, creation of accounts etc, they would be unable to set up new users or alter parameters that Civica advise should be altered. For item c), the 'aisdba' account in the Capita Debtors system is restricted to system administrators and IT database administrators. All access will be reviewed. Password management controls and monitoring activities will be reviewed, and controls implemented as appropriate over the next six months.

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12	●	**Lack of consistent user access management process and procedures** There were no standardised user access management procedures and processes to support all financial systems and we were informed that user access could be requested via email or phone in addition to the existing user access forms. These forms also varied in format according to application e.g. Capita Debtor access captured the user's acknowledgement that they had read and would abide by BCP's IS Policy prior to access being granted but this was not required to access Radius Debtors. The new user access, movers and leavers we did review for our sample were found to have been properly authorised for Capita Debtors though we did not receive sufficient evidence to review the leaver and mover process for Radius Debtors. Our review of Oracle Fusion revealed that leavers were marked as '(Do not use - Account deactivated)'. However, these accounts appeared on the 'active users' list and so had not been fully deactivated. This could mean that such accounts could be used (by others) to circumvent internal controls and misuse the system as such activity would be difficult to trace back to the individual responsible. We also detected 6 system administrators who had left BCP but whose access had not been removed at the time of the audit. We were informed that HR did provide leaver details. However, such reports should not be relied upon solely to remove users as the information is not always timely. For instance, a monthly HR Leavers Report would mean that a leaver's account is available up to the time the HR report is issued for actioning, which could be up to a month after the individual had left. These issues pose the following risks: i. Internal access to information assets may not be restricted on the basis of legitimate business need leading to fraud and financial misstatement.	a) Management should ensure that all leavers are 'deactivated' promptly. In addition, the six system administrator accounts of leavers should be removed, and steps taken to ensure that such accounts had not been used following their departure dates. b) BCP's user access arrangements should be reviewed and, if necessary, a new procedure introduced to ensure a standardised, formal approach across all applications. All users should be formally authorised (by their line managers) and have access to financial systems and data in accordance with their role. It would also help avoid inappropriate access permissions accumulated by staff as they transfer between roles and ensure the prompt removal of leavers. The policy should also include the management of system and generic accounts. Any new policy should be reviewed and authorised by senior management and made freely available to all staff. c) User access forms should be consistent by capturing similar information for example, that the user had read the Council's IS Policy and would abide by it. All forms should be retained for future scrutiny and annual user access reviews conducted to support compliance with this process. **Management Response:** The six system administrator accounts were locked and not usable without access to the email account linked to them. Since the audit all have been deactivated. With regards to Radius access, all users are asked to complete a User Access Request Form to enable access. On a quarterly basis, all users of Radius are sent an email to ascertain if access is still required, giving the user the opportunity to be voluntarily removed. We are currently undergoing a Council wide restructuring exercise. Once competed we will review user management processes in line with the new organisational structure once implemented

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Assessment	Issue and risks	Recommendations
	ii. Accumulation of access rights as a result of a job transfer may cause segregation of duties conflicts leading to fraud and financial misstatement. iii. Enabled, no-longer-needed user accounts may be misused by valid system users to circumvent internal controls. Terminated employees may continue to access information assets through enabled, no-longer-needed user accounts leading to fraud and financial misstatement.	

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	Assessment	Issue and risks	Recommendations
12	●	**Audit logs are not enabled on Active Directory (AD) and lack of proactive monitoring** User access security audit logging is not been enabled on Active Directory and 'Splunk' is not yet in operation on the network domains. Although logging is enabled on Radius and Capita Debtors systems, we were informed review of the logged data is only conducted retrospectively if an issue is identified. These issues pose the following risk: Without formal, proactive, and routine reviews of security event logs, inappropriate and anomalous security activity (e.g., repeated invalid login attempts, activity violating information security policies) may not identified and/or addressed in a timely manner.	Management should utilise the 'Splunk' monitoring service and review the configuration of all critical systems to ensure that security logging is enabled, and that meaningful information can be obtained from audit logs. This could include a review of key activities / tables to ensure that only high-risk areas are subject to audit logging. Additionally, audit logs for high risk areas / key database tables / privileged user activities should be periodically reviewed. These reviews should be performed by one or more knowledgeable individuals who are independent of the day-to-day use or administration of these systems. **Management Response:** We intend to implement a SIEM within the BCP AD as part of our AD consolidation work. Radius already has an audit trail on every aspect of updates/changes made by a user and of automated changes (i.e. recovery letters being generated). In Capita debtors, as users log in with single sign on, the event log will not identify issues such as repeated invalid login attempts.

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	Assessment	Issue and risks	Recommendations
13	●	**Active Directory (AD) Network - domain user management** Work is currently ongoing to provide a single BCP Council domain and until complete, each entity has a separate domain which operate on different naming conventions and processes. In common to all Domains (CED, BBC, BoP) there are large number of generic 'Test', 'Train' and 'Temp' user accounts, which are enabled and used regularly. While we understand that the 'Train' accounts are limited to specific assets and are used widely for the training programmes delivered through HR and IG Governance Teams, 'Test' accounts should not be active on a live network and any temporary staff should still have named accounts to ensure accountability and not be shared even if access is limited. These issues pose the following risks: Internal access to information assets may not be restricted on the basis of legitimate business need leading to fraud and financial misstatement.	Management should review the allocation of access using generic (i.e. 'Test', 'Train' and 'Temp') accounts and review the adequacy of controls to ensure accountability for all system users. As part of the work to provide a single BCP Council Domain, the Council should identify and remove all non-essential and unused accounts. We also recommend that the work to develop a single naming convention across all domains is concluded as soon as practicable. **Management Response:** Agreed

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	Assessment	Issue and risks	Recommendations
14	●	**Non-compliant password settings** BCP is introducing a single network domain but in the review period, the password settings on the three AD domains (at Bournemouth, Poole and Christchurch) varied and did not comply with BCP's IS Policy: • All domains' password age is set to '120' days not '90' days as stated in the IS policy. • The Christchurch AD password length is set to six, not nine as stated in the IS Policy. • Attempted login controls varied. Bournemouth domain is set to 8 attempts in 30 minutes before admin reset, Poole Domain 6 attempts in 30 minutes before admin reset whilst the Christchurch Domain was 5 attempts in 30 minutes and reset after 30 minutes (no admin reset). • Capita Debtor's password length is set to 7. These issues pose the following risk: Compromise of user accounts through password guessing or cracking leading to fraud and financial misstatement.	AD domain password parameters should comply with BCP's IS Policy settings: • For all domains, the password age is changed to 90 days. • Christchurch domain password length should be increased to nine. • Harmonise account lock-out controls to ensure administrator reset after agreed number of attempted logon attempts within 30 minutes. In addition, Capita Debtor's password length should be increased to 9. **Management Response:** Agreed. This forms part of our work to consolidate the 3 legacy domains into 1 BCP AD domain. Radius does not generate passwords. It utilises the same password the User has entered to access their PC/laptop. It therefore follows BCP's own IS Policy. Capita debtors also utilises single sign on based on the user's account in the Active Directory.