

BCP Council Audit Progress Report

Year ending 31 March 2021

March 2022



Contents

| Section | Page |
|------------------------|------|
| Introduction | 3 |
| Progress at March 2022 | 4 |
| Audit Deliverables | 7 |

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Authority or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Introduction



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This paper provides the Audit and Governance Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Audit and Governance Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications www.grantthornton.co.uk.

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

Progress at March 2022

Financial Statements Audit

In our progress report to the Committee in January 2022, we reported that a number of matters had arisen that had delayed completion of our 2020/21 opinion audit.

Specifically, our work on land and buildings had identified a number of errors and the need for further valuations. Additional audit procedures had also been required in other areas, the most significant of which were:

- payroll procedures due to reconciliation issues,
- IT segregation of duties issues resulting in larger sample sizes on journals

Good progress has been made in these and other areas and subject to receipt of the final responses to a small number of outstanding queries we expect to be able to close off these areas shortly.

Although we have now substantially completed our audit work, there remain two key areas outstanding that will impact on our revised completion timetable of the end of February 2022.

We have previously highlighted that we rely on the work undertaken by the auditor of Dorset Pension Fund to gain assurance over elements of the pension liability figure reported in the Council's accounts. Despite assurances that this would be forthcoming in January 2022, at the time of drafting this progress report, we have not received the required assurances to complete our work in this area.

In addition, it has recently been identified that there could be a national issue regarding the accounting of infrastructure assets where remedial/renewal expenditure has been incurred subsequent to the original expenditure on the asset. In response, the firms responsible for Public Sector Audit and the NAO are currently in discussion as to what is sufficient evidence to support the carrying value of infrastructure within councils' balance sheets.

At this time, a number of the firms including Grant Thornton are not signing any audits subject to review by the FRC (this includes BCP) until clarity on what is good enough has been agreed with the NAO and FRC.

At this stage we are unable to confirm when this issue will be resolved and although we have undertaken some testing in 2020/21 reviewing the basis of BCP's infrastructure valuation approach (£293m at 31 March 2021) the outcome may necessitate further work in this area.

We are also awaiting a final revised set of accounts to complete our final procedures.

It is important to note that the pension liabilities assurance from the Pension Fund auditor and the national Infrastructure issues are beyond the control of the Council and without these we would be looking to conclude over the next few weeks.

We will keep the Committee apprised of progress towards completion of the audit.

Progress at March 2022 (cont.)

Value for Money

The new Code of Audit Practice (the “Code”) came into force on 1 April 2020 for audit years 2020/21 and onwards. The most significant change under the new Code is the introduction of an Auditor’s Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations, if required.

The new approach is more complex, more involved and is planned to make more impact.

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies auditors are required to issue our Auditor’s Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation. The extended deadline for the issue of the Auditor's Annual Report is now no more than three months after the date of the opinion on the financial statements.

In our Audit Plan were identified a risk of significant weakness in respect of the findings of a focussed inspection of the Council’s childrens services, which reported in November 2020, and identified significant failings. This is indicative of weaknesses in how the Council delivers this service.

We have now concluded our work in this area which is reported to you in our report in the VFM recommendation report that is a separate item on this Committee agenda.

Other areas

Certification of claims and returns

We certify the Authority’s annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions (DWP). The certification work for the 2020/21 claim began in November. DWP has extended the deadline for reporting the findings of this work to 31 January 2022. This work is complete with a small number of errors identified from extended testing of the claim for the Bournemouth area. These errors were the result of legacy issues in the calculation of claims with earned income. The number of transactions has meant that an extrapolation of the potential impact of these errors has been performed. The extrapolated error is £127, which has been reported to DWP.

We have certified the Authority’s annual Pooling of Housing Capital Receipts return in accordance with procedures agreed with the Ministry of Housing, Communities & Local Government. (MHCLG). No issues were identified from our work to certify this return.

Meetings

We met with Finance Officers regularly as part of our monthly liaison meetings and continue to be in discussions with finance staff regarding emerging issues.

Progress at March 2022(cont.)

Whole of government accounts

The Council is required to complete a return to MHLOG annually which we are required to certify. The return is not yet available and currently the audit deadline is 31 July 2022. We are unable to certify the audit until this work is completed.

Objection to the accounts

We have received an objection to the 2020/21 accounts covering a number of areas. We have considered the points raised by the elector. We are required to consult with PSAA as part of this process, which remains in progress.

Events

We provide a range of workshops, along with network events for members and publications to support the Authority. Your officers will be invited to attend our Financial Reporting Workshop in January and February 2022, which will help to ensure that members of your Finance Team are up to date with the latest financial reporting requirements for local authority accounts.

Further details of the publications that may be of interest to the Authority are set out in our Sector Update section of this report.

Audit Fees

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2020/21 is the third year of that contract. Since that time, there have been a number of developments within the accounting and audit profession. Across all sectors and firms, the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

Our work in the Local Government sector in 2018/19 and 2019/20 has highlighted areas where financial reporting, in particular, property, plant and equipment and pensions, needs to improve. There is also an increase in the complexity of Local Government financial transactions and financial reporting. This combined with the FRC requirement that all Local Government audits are at or above the “few improvements needed” (2A) rating means that additional audit work is required.

We have reviewed the impact of these changes on both the cost and timing of audits. We have discussed this with your s151 Officer including any proposed variations to the Scale Fee set by PSAA Limited, and have communicated fully with the Audit Committee.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting.

Audit Deliverables

| 2020/21 Deliverables | Planned Date | Status |
|--|------------------|-------------|
| Audit Plan We are required to issue a detailed audit plan to the Audit and Governance Committee setting out our proposed approach in order to give an opinion on the Authority's 2020/21 financial statements and the Auditor's Annual Report on the Authority's Value for Money arrangements. | July 2021 | Complete |
| Interim Audit Findings We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report. | October 2021 | Complete |
| Audit Findings Report The Audit Findings Report will be reported to the Audit and Governance Committee. | TBC (revised) | |
| Auditors Report This includes the opinion on your financial statements. | TBC (revised) | |
| Auditor's Annual Report This Report communicates the key issues arising from our Value for Money work. | April 2022 | Not yet due |
| 2020/21 Audit-related Deliverables | Planned Date | Status |
| Teachers Pensions Scheme – certification This is the report we submit to Teachers Pensions based upon the mandated agreed upon procedures we are required to perform. | 30 November 2021 | Complete |
| Housing Benefit Subsidy – certification This is the report we submit to Department of Work and Pensions based upon the mandated agreed upon procedures we are required to perform. | 31 January 2022 | Complete |
| Pooling of housing capital receipts - certification This is the report we submit to Ministry of Housing, Communities and Local Government based upon the mandated agreed upon procedures we are required to perform. | 4 February 2022 | Complete |

