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Marcus Andrews
Bournemouth, Christchurch and Poole Council
St Stephens Road
Bournemouth
BH2 6EB

Grant Thornton UK LLP
2 Glass Wharf
Bristol BS2 0EL

T +44 (0)117 305 7600
F +44 (0)117 305 7784
grantthornton.co.uk

Dear Marcus

Bournemouth, Christchurch and Poole Council: Conclusion of the audit for 2022/23 – letter to those charged with governance on the application of the local authority backstop

As you will be aware, on 5 September 2024 the government published draft the Accounts and Audit (Amendment) Regulations 2024. These Regulations, which were approved on 30 September 2024, set a publication date for financial statements up to and including 2022/23 of 13 December 2024. The new National Audit Office Code, which is expected to be approved by 14 November 2024, also requires that auditors should issue their audit report in time for the relevant authority to publish its accounts by the specified date in those Regulations. Where audit work is not concluded, this will result in either a qualification or disclaimer of opinion.

As discussed with your Chief Finance Officer & Director of Finance, and for reasons which I set out in more detail below, it will not be possible for us to complete our audit for 2022/23 by the statutory backstop date. We therefore propose to issue a disclaimer of our audit opinion. I attach a draft copy of this disclaimer for the attention of the Audit & Governance Committee.

We are required under Auditing Standards to report certain matters to the Audit & Governance Committee, including our responsibilities as auditor, the scope of the audit, independence, audit fees and any matters arising from the audit. I set out more details on the audit below. Information regarding our responsibilities, the scope of the audit and fees are included in the Appendix.

Outcome of our audit for 2022/23 – Disclaimer of the opinion on the financial statements

For reasons set out below, it will not be possible for us to undertake sufficient work to support an audit opinion by the statutory deadline of 13 December 2024. This means that the limitations of scope imposed by the backstop are pervasive and therefore we have been unable to form an opinion on the financial statements by the due date. We therefore plan to issue a disclaimer of the audit opinion. We have provided the draft wording of our Audit Report alongside this letter for your information.

As previously reported, the 2021/22 opinion audit was not concluded until June 2024. This significant delay was a result of the delay in receiving the IAS19 Pension Fund Liability letter of assurance from the auditors of Dorset Pension Fund. We had agreed with the Council that the audit of the financial statements for the year ended 31 March 2023 would not commence until the previous audit was concluded. This meant there was no realistic prospect of the audit of Council's financial statements for 2022/23 being completed in advance of the December 2024 backstop deadline.

Chartered Accountants

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Outcome of this year's audit - Value for Money work and other work under the National Audit Office Code of Audit Practice

We undertook our Value for Money work for the year ended 31 March 2023 and have reported the outcome in an Interim Annual Audit report dated August 2023.

The key findings for the year ended 31 March 2023 noted four significant weaknesses in relation to financial sustainability and arrangement to secure economy, efficiency and effectiveness as follows:

- A significant weakness in the Authority's arrangements for financial sustainability. This was in relation to the Authority's ability to set a credible and balanced Medium-Term Financial Strategy that properly reflect the spending power at its disposal. We recommended that the Authority:
 - Undertake an urgent review of the Transformation Programme due to inherent weaknesses in the control and management of the programme, as well as the delivery of savings and management of costs;
 - Ensure there is a robust methodology for monitoring and tracking operational and transformation savings and that reporting an actual performance against plan is more transparent;
 - Ensure that the Transformation Programme is fully financed before there are further commitments to the programme are made.
- Another significant weakness in respect of the Authority's arrangements for financial sustainability. This was in relation to the Authority's medium-term plans for its General Fund Balances and Earmarked reserves, which continue to fall. We recommend the Authority continue to review the sustainability of Reserves and Balances and ensure the Medium-Term Financial Strategy demonstrates a realistic plan to avoid further use of and ideally replenish reserves and balances.
- A significant weakness in respect of the Authority's governance. This was in relation to consideration by the then Administration of a late, potentially high-risk, amendment to the indicative budget proposals for 2023/24. We recommended that the Authority:
 - must not enter into high-risk ambitious and challenging projects without the proper and full consideration of governance arrangements and ensure they are adhered to. Members must consider all advice from statutory officers and ensure they have the best technical, professional and legal support before considering any high-risk and challenging projects.
- A significant weakness in respect of the Authority's arrangement to secure economy, efficiency and effectiveness. The November 2020 findings of a focussed Ofsted inspection of the Authority's children's services identified significant failings. We recommend that the Authority:
 - should continue to address the weaknesses identified by Ofsted and the Department for Education to ensure all children have access to quality services which meet their needs in a timely manner.
- A significant weakness in respect of the Authority's arrangement to secure economy, efficiency and effectiveness. This was in relation to the decision making on specific initiatives including the Authority's transformation programme, BCP FuturePlaces and other projects, particularly pertaining to the process of scrutinising business cases. We recommended that the Authority
 - Ensure it has a robust decision making processes in place for specific initiatives including the transformation programme, BCP FuturePlaces and other service delivery models as well capital projects and small investments;

- Ensure there is robust scrutiny and a sound business case for selling Council assets to the fund the transformation programme, This should include a fit for purpose mechanism for developing Business Cases, financial appraisal models, and sufficient programme management support to ensure programme objectives are identified, project plan are developed, objectives are delivered, and risk /reward and issues are identified and mitigated/enhanced;
- Establish a regular cycle of reviewing business plans in relation to all its high value and high-risk investments including its subsidiary companies such as BCP FuturePlaces.

We are also required to report by exception if we have applied any of our statutory powers or duties.

We have nothing to report in respect of the above.

Independence

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention and consider that an objective reasonable and informed third party would take the same view. 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. 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.

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.

Management letter of representation

We have asked management to provide a letter of representation in respect of the financial statements covering 2022/23. This will be tabled as a separate agenda item.

Looking ahead

The circumstances resulting in the application of the local authority backstop are clearly extremely unusual. The government has signalled its intent that where backstops have been applied, local authorities and their auditors work together to recover the position over subsequent years. We will follow relevant guidance including from the NAO and the FRC to work with you over the coming year, as we seek to rebuild audit assurance.

Yours sincerely

Peter Barber

For Grant Thornton UK LLP

cc Chief Finance Officer & Director of Finance

Attachments: Draft Disclaimer Opinion 2022/23

Appendix

Responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Bournemouth, Christchurch and Poole Council. We draw your attention to both of these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council [and group]'s financial statements that have been prepared by management with the oversight of those charged with governance (the Audit & Governance Committee); and we consider whether there are sufficient arrangements in place at the Council [and group] for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently in order to maximise the outcomes that can be achieved.

The audit of the financial statements does not relieve management or the Audit & Governance Committee of its responsibilities. It is the responsibility of the authority to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the authority is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the authority's business and is risk based.

Audit Plan

Due to delays in the completion of prior year audits, we were unable to issue an audit plan in respect of this audit year.

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.

Due to delays in the completion of prior year audits, we were unable to determine a materiality level for 2022/23.

Key financial reporting and audit issues identified during the audit

As we have not undertaken any detailed work in respect of this year's financial statements audit, there are no issues we need to draw to your attention.

Going Concern

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).

In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it

may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector.

Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:

- the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities
- for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the authority's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report.

Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by a local authority meets this criteria, and so where undertaking work on your audit, we would normally expect to apply the continued provision of service approach. In doing so, we would consider and evaluate:

- the nature of the authority and the environment in which it operates
- the authority's financial reporting framework
- the authority's system of internal control for identifying events or conditions relevant to going concern
- management's going concern assessment.

As we have been unable to form an opinion on the financial statements, we are unable to draw a conclusion in this area.

Design effectiveness of internal controls

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to management.

We have nothing to report in respect of the above.

Other matters which we are required to report on to those charged with governance

We are required to confirm the following:

- We have not been made aware of any incidents of fraud in the period and no issues have been identified during the course of our audit procedures.
- We are not aware of any related party transactions which have not been disclosed.
- We are not aware of any significant incidences of non-compliance with applicable laws and regulations.

Matters in relation to the Group audit

In respect of the group engagement, we are required to report on:

- The scope of work on components
- The involvement of group auditors in significant component audits,
- Any concerns over quality of component auditors' work
- Limitations of scope on the group audit, and
- Fraud or suspected fraud

We have no matters to report in this respect.

Audit fees and non-audit fees

PSAA set a scale fee for this the year ended 31 March 2023. Our planning assumption based on the actual fees for the prior year resulted in an indicative fee of £226,125 which included additional work required since the scale fee had been set. This included additional fees to reflect the increased work required under Value for Money (VFM) as a result of the new NAO code as well as the number of significant issues identified in prior years. No plan was issued for 2022/23.

Given the unusual circumstances of the backstop, we are awaiting a determination from PSAA as to the appropriate fee to be charged for each audit year. Our current estimate of final fee for the audit is set out below and is based on estimated costs incurred to date. Final fees will be determined by PSAA and we will update the Council in due course once their final determination is made.

Estimated 2022/23 audit fees which included VFM, communication and reporting (including issuing the backstop opinion is £72,360.

We have also undertaken the following non audit work in respect of the year.

Non-Audit Service	Final Fee
Audit of pooling of housing capital receipts year ending 31 March 2023	£10,000
Audit of housing benefits grant return year ending 31 March 2023	£49,000
Audit of Teacher's pension grant return year ending 31 March 2023	£10,000

The fees do not reconcile to the financial statements, so we have provided a reconciliation:

	31 March 2023
Audit fees per financial statements	£330,000
Additional fees for 2021/22 (incorrectly referenced as 2022/23 in draft 2022/23 statements)	<u>(£65,000)</u>
Total for 2023/23	£265,000
Scale fee 2022/23	£145,625
Indicative additional fees 2022/23 at planning	£80,500
Council estimated additional fees at post statement	<u>£38,875</u>
Total for 2023/23	£265,000*

*As set above the final audit fee for 2022/23 will be determined by PSAA in due course and will represent a proportion of the indicative fee given the application of the backstop.

Certification of grants per financial statements	£28,000
Under-accrual based on indicative fees	£41,000
Total	£69,000

The level of these recurring non-audit fees taken on their own is not considered a significant threat to independence in comparison to the total original estimated fee for the audit of £265,000 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, there is no contingent element to it. These factors all mitigate any perceived self-interest threat to an acceptable level.