



Agenda

Audit and Standards Committee

| | |
|--------------------|--|
| Date: | Thursday, 19 January 2023 at 6:30 pm |
| Venue: | Town Hall, St Annes, FY8 1LW |
| Committee members: | <p>Councillor Ellie Gaunt (Chairman)</p> <p>Councillor Ed Nash (Vice-Chairman)</p> <p>Councillors Paula Brearley, Delma Collins, Peter Collins, Brian Gill, Will Harris, Paul Hayhurst, John Singleton JP.</p> |

| | PROCEDURAL ITEMS: | PAGE |
|---|---|---------|
| 1 | Declarations of Interest: Declarations of interest, and the responsibility for declaring the same, are matters for elected members. Members are able to obtain advice, in writing, in advance of meetings. This should only be sought via the Council's Monitoring Officer. However, it should be noted that no advice on interests sought less than one working day prior to any meeting will be provided. | 1 |
| 2 | Confirmation of Minutes: To confirm the minutes, as previously circulated, of the meeting held on 10 November 2022 as a correct record. | 1 |
| 3 | Substitute Members: Details of any substitute members notified in accordance with council procedure rule 23(c). | 1 |
| | AUDIT DECISION ITEMS: | |
| 4 | Deloitte Audit Plan 2021/22 | 3 - 33 |
| 5 | Internal Audit Progress Report | 34 - 49 |
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| | AUDIT INFORMATION ITEMS: | |
| 7 | Regulation of Investigatory Powers Act 2000: Authorisations | 54 |

Contact: Sharon Wadsworth – Email: democracy@fylde.gov.uk

The code of conduct for members can be found in the council's constitution at
<http://fylde.cmis.uk.com/fylde/DocumentsandInformation/PublicDocumentsandInformation.aspx>

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DECISION ITEM

| REPORT OF | MEETING | DATE | ITEM NO |
|------------------------------------|-------------------------------|-----------------|---------|
| CHIEF FINANCIAL OFFICER | AUDIT AND STANDARDS COMMITTEE | 19 JANUARY 2023 | 4 |
| DELOITTE AUDIT PLAN 2021/22 | | | |

PUBLIC ITEM

This item is for consideration in the public part of the meeting.

SUMMARY

The report presents the Audit Planning Report from Deloitte for the financial year 2021/22. The report will be presented by Deloitte.

RECOMMENDATION

The committee is recommended to:

1. Consider, comment upon, and note the Deloitte Audit Plan Report for 2021/22 which is attached to this covering report.

SUMMARY OF PREVIOUS DECISIONS

The Audit Plan is considered each year by the Audit and Standards Committee.

CORPORATE PRIORITIES

| | |
|--|---|
| Economy – To create a vibrant and healthy economy | ✓ |
| Environment – To deliver services customers expect | |
| Efficiency – By spending money in the most efficient way | |
| Tourism – To create a great place to live and visit | |

REPORT

1. The attached report has been prepared by the Council's external auditors, Deloitte. It summarises how they will deliver their audit work for Fylde Borough Council during the coming year.

| IMPLICATIONS | |
|---|--|
| Finance | There are no financial implications arising directly from this report - the cost of external work can be met from existing budget provision. |
| Legal | No implications arising from this report |
| Community Safety | No implications arising from this report |
| Human Rights and Equalities | No implications arising from this report |
| Sustainability and Environmental Impact | No implications arising from this report |
| Health & Safety and Risk Management | No implications arising from this report |

| LEAD AUTHOR | CONTACT DETAILS | DATE |
|--|-----------------|--------------|
| Paul O'Donoghue Chief Financial Officer | 01253 658566 | January 2023 |

| BACKGROUND PAPERS | | |
|-------------------|------|--------------------------------|
| Name of document | Date | Where available for inspection |
| N/A | N/A | N/A |

Attached documents

Appendix 1 – Deloitte Audit Planning Report for the year ending 31st March 2022.



Planning report to the Audit and Standards Committee for the year ending 31 March 2022

Issued on 11 January 2023 for the committee meeting on 19th January 2023

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01 Planning report

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Introduction

The key messages in this report:

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

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

We have pleasure in presenting our planning report to the Audit and Standards Committee for the year ending 31 March 2022 audit. We would like to draw your attention to the key messages of this audit plan:

Audit Scope

Our principal audit objective is to obtain sufficient, relevant and reliable audit evidence to enable us to express an opinion on the statutory accounts of the Council prepared in accordance with the Code of Practice on Local Authority Accounting ("the Code") issued by CIPFA for the period ending 31 March 2022. We will conduct our audit in accordance with International Standards on Auditing (UK) ("ISA UK") as adopted by the UK Auditing Practices Board ("APB") and Code of Audit Practice issued by the National Audit Office.

Our responsibilities as auditor, and the responsibilities of the Council, are set out in the 'PSAA Statement of responsibilities of auditors and audited bodies: Principal Local Authorities and Police Bodies' published by Public Sector Audit Appointments Limited.

Audit Plan

We have updated our understanding of the Council including discussion with management and review of relevant documentation from across the Council.

Based on these procedures, we have developed this plan in collaboration with the Council to ensure that we provide an effective audit service that meets your expectations and focuses on the most significant areas of importance and risk to the Council.

Key Risks

We have taken an initial view as to the significant audit risks the Council faces. These are presented on pages 12 to 14.

Regulatory Change

An issue in relation to the accounting treatment for infrastructure assets has been identified across the local government sector which has impacted on the sign off of the 2020/21 accounts and will mean that there are required changes to the accounts, more detail is set out on page 4.

Following an emergency consultation CIPFA has delayed the implementation of IFRS 16 until 1 April 2024.

We have reported on other regulatory changes in our accompanying sector developments section, page 18 onwards.

Our Commitment to Quality

We are committed to providing the highest quality audit, with input from our market leading specialists, sophisticated data analytics and our wealth of experience.

Introduction

The key messages in this report (continued):

Infrastructure assets

Infrastructure assets are inalienable assets, expenditure on which is only recovered by continued use of the asset created. They include carriageways, structures, street lighting, street furniture and traffic management systems, and are measured at historical cost, in line with the requirements of the CIPFA Code.

The CIPFA Code requires that where a component of an asset is replaced:

- the cost of the new component should be reflected in the carrying amount of the infrastructure asset; and
- the gross costs and accumulated depreciation of the old component should be derecognised to avoid double counting.

Auditors have identified that local authorities in the UK have not been properly accounting for infrastructure assets since the move to IFRS in 2020/21 due to information deficits. This is particularly the case in relation to roads, where the engineering records used for maintenance have not been created to map against identifiable components.

CIPFA/ LASAAC attempted to resolve the issues and undertook an urgent consultation on temporary changes to the code. However, it was unable to agree an approach that addressed the concerns of all stakeholders whilst also supporting high quality financial reporting.

This has resulted in the Department for Levelling Up, Housing and Communities (DLUHC) agreeing to provide a statutory instrument, which will help resolve some of the issues identified, whilst a permanent solution is identified. The draft instrument was published on 30 November 2022 and came into effect on 25 December 2022. CIPFA has issued an update to the Code in relation to infrastructure assets and is expected in the near future to issue guidance on the application of the update to the Council's financial statements.

Audit of 2020/21 accounts update

We are unable to sign the 2020/21 accounts until the outstanding infrastructure assets matter has been resolved. Once the guidance is available we will work with the Council to understand the impact that the changes will have on the accounting treatment and the account balances recognised in relation to the specific assets held by the Council and the updates that will be required to be made to the disclosures within the financial statements.

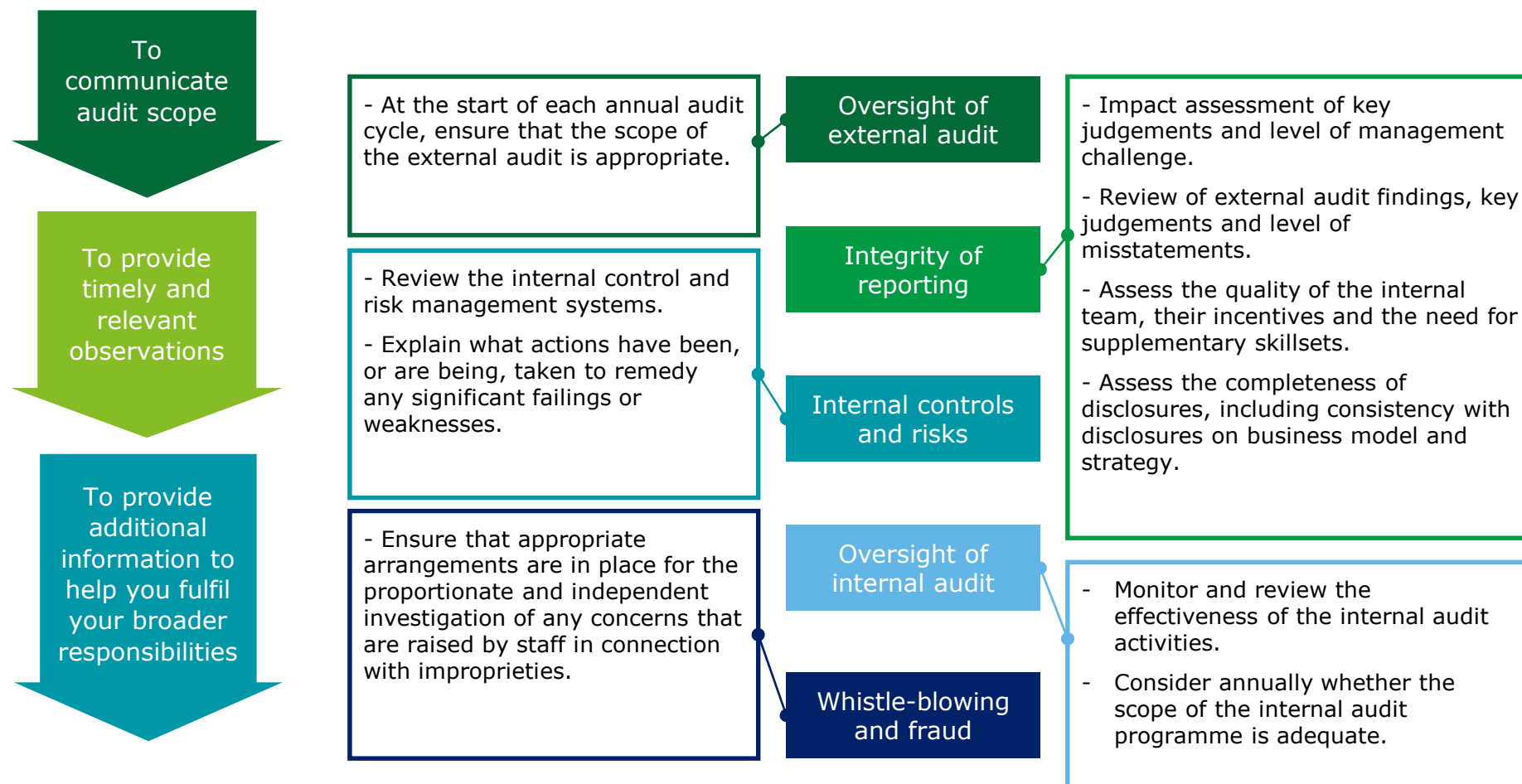
Paul Hewitson
Audit lead

Responsibilities of the Audit and Standards Committee

Helping you fulfil your responsibilities

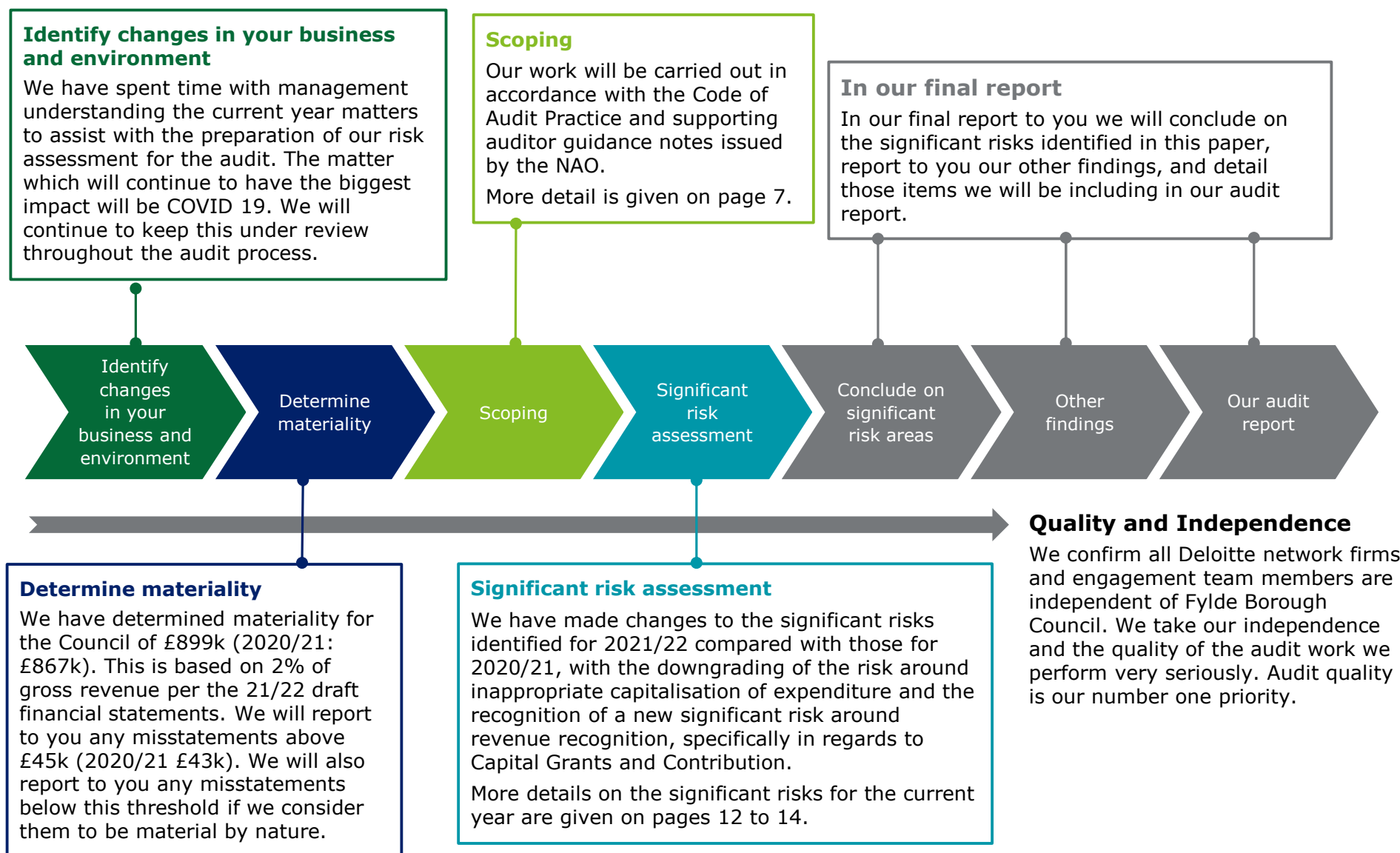
Why do we interact with the Audit and Governance Committee?

As a result of regulatory change in recent years, the role of the Audit and Governance Committee has significantly expanded. We set out here a summary of the core areas of Audit and Governance Committee responsibility to provide a reference in respect of these broader responsibilities.



Our audit explained

We tailor our audit to your business and your strategy



Scope of work and approach

We have four key areas of responsibility under the Audit Code

Financial statements

We will conduct our audit in accordance with the Code of Audit Practice and supporting guidance issued by the National Audit Office ("NAO") and International Standards on Auditing (UK) ("ISA (UK)") as adopted by the UK Auditing Practices Board ("APB"). The Council will prepare its accounts under the Code of Practice on Local Authority Accounting ("the Code") issued by CIPFA and LASAAC.

We report on whether the financial statements:

- Give a true and fair view of the financial position and income and expenditure; and
- Are prepared in line with the Code of Practice on Local Authority Accounting ("the Code").

Narrative Report and Annual Governance Statement

We are required to report on whether other information published with the audited financial statements is consistent with the financial statements.

Other information includes information included in the Statement of Accounts, in particular the Narrative Report. It also includes the Annual Governance Statement which the Council is required to publish alongside the Statement of Accounts.

In reading the information given with financial statements, we take into account our knowledge of the Council, including that gained through work in relation to the Council's arrangements for securing value for money through economy, efficiency and effectiveness in its use of resources.

Value for Money conclusion

The National Audit Office's 2020 Code of Audit Practice revised the scope of the required work of the auditor on bodies' arrangements to secure value for money, moving away from a binary conclusion on arrangements in the audit report to a narrative commentary in a new "Auditor's Annual Report" (which replaces the Annual Audit Letter).

To perform this work, we are required to:

- Obtain an understanding of the Council's arrangements sufficient to support our risk assessment and commentary;
- Assess whether there are risks of a significant weakness in the Council's arrangements, and perform additional procedures if a risk is identified. If a significant weakness is identified, we report this and an accompanying recommendation;
- Report in our audit opinion if we have reported any significant weaknesses.
- Issue a narrative commentary in our Annual Auditor's Report on the arrangements in place.

This is consistent with the scope of work which applied in the prior year.

Our responsibilities as auditor, and the responsibilities of the Council, are set out in the "Statement of Responsibilities of auditors and audited bodies: Principal Local Authorities and Police Bodies" published by PSAA.

Scope of work and approach

Our approach

Liaison with internal audit

The Auditing Standards Board's version of ISA (UK) 610 "Using the work of internal auditors" prohibits use of internal audit to provide "direct assistance" to the audit. Our approach to the use of the work of Internal Audit has been designed to be compatible with these requirements.

We will review their reports and meet with them to discuss their work. We will discuss the work plan for internal audit, and where they have identified specific material deficiencies in the control environment we consider adjusting our testing so that the audit risk is covered by our work.

Using these discussions to inform our risk assessment, we can work together with internal audit to develop an approach that avoids inefficiencies and overlaps, therefore avoiding any unnecessary duplication of audit requirements on the Council's staff.

Approach to controls testing

Our risk assessment procedures will include obtaining an understanding of controls considered to be 'relevant to the audit'. This involves evaluating the design of the controls and determining whether they have been implemented ("D&I").

The results of our work in obtaining an understanding of controls and any subsequent testing of the operational effectiveness of controls will be collated and the impact on the extent of substantive audit testing required will be considered.

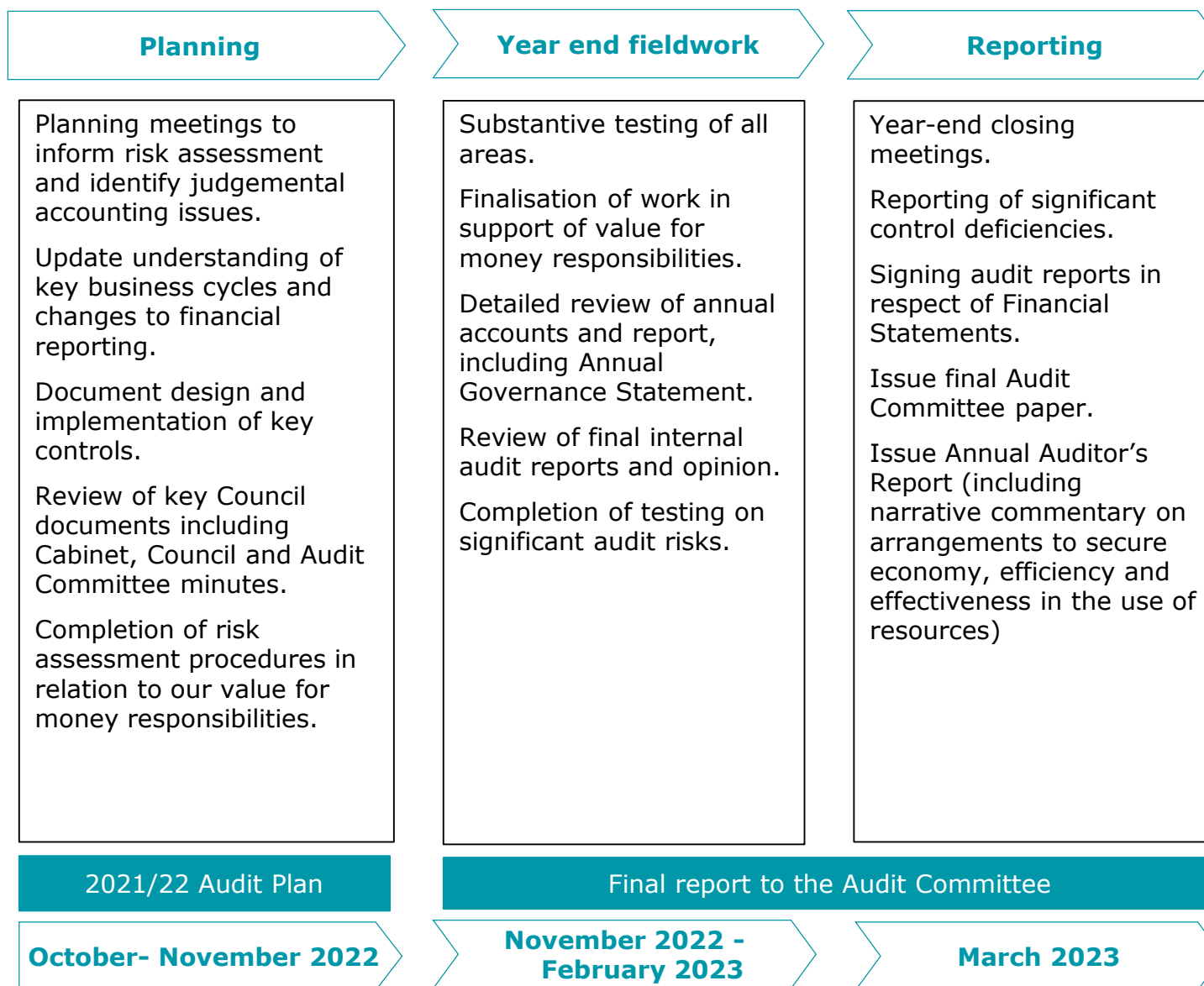
Promoting high quality reporting to stakeholders

We view the audit role as going beyond reactively checking compliance with requirements: we seek to provide advice on evolving good practice to promote high quality reporting.

We recommend the Council complete the Code checklist during drafting of their financial statements.

Continuous communication and reporting

Planned timing of the audit



Ongoing communication and feedback

Page 13 of 54

Deloitte Confidential: Public Sector

Materiality

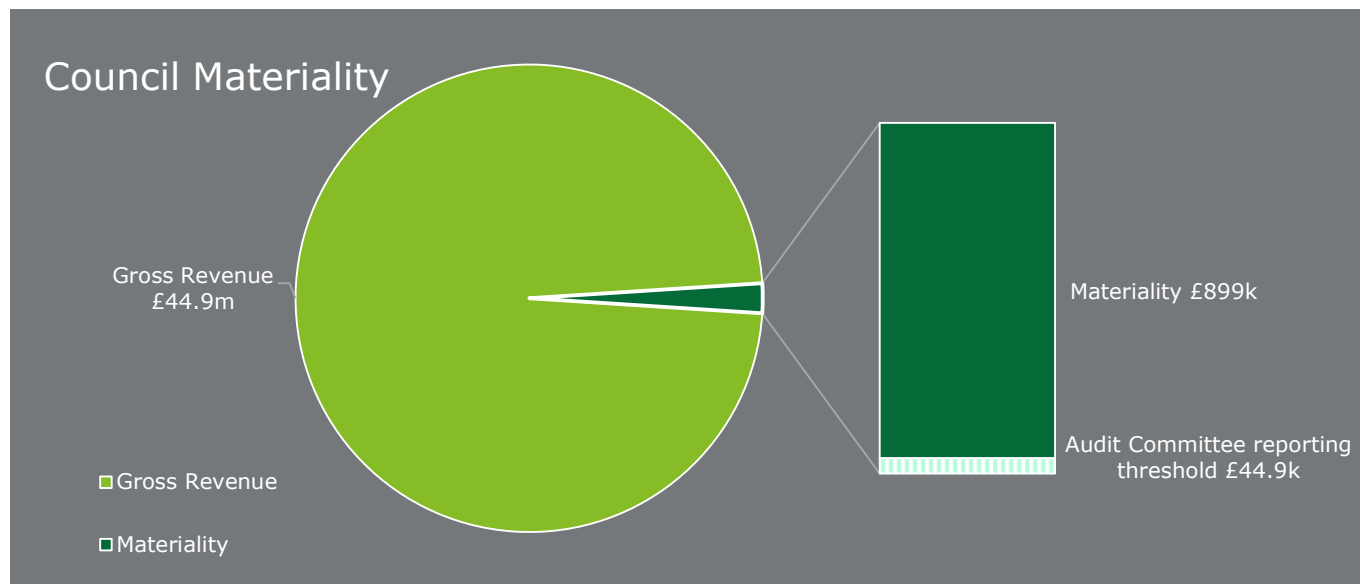
Our approach to materiality

Basis of our materiality benchmark

- We have determined materiality for the Council as £899k (2020/21: £867k), based on professional judgement, the requirements of auditing standards and the financial measures most relevant to users of the financial statements.
- We have used 2% of gross revenue based on the unaudited 2021/22 accounts as the benchmark for determining our preliminary materiality.

Reporting to those charged with governance

- We will report to you all misstatements found in excess of £45k (2020/21 £43k).
- We will report to you misstatements below this threshold if we consider them to be material by nature.



Although materiality is the judgement of the audit partner, the Audit Committee must satisfy themselves that the level of materiality chosen is appropriate for the scope of the audit.

Significant risks

Our risk assessment process

We consider a number of factors when deciding on the significant audit risks. These factors include:

- the significant risks and uncertainties previously reported in the Council's Statement of Accounts;
- the IAS 1 critical accounting estimates previously reported in the Council's Statement of Accounts;
- the disclosures made by the Audit and Standards Committee in their previous Committee report;
- our assessment of materiality; and
- the changes that have occurred in the business and the environment it operates in since the last Statement of Accounts.

Deloitte view

Management must carefully consider the principal risks, uncertainties and accounting estimates of the Council.

Page 12 summarises the significant risks that we will focus on during our audit.

Principal risk and uncertainties

- Property valuations
- Fair value measurement
- Project management
- Future funding

Changes in your business and environment









- Impacts of COVID-19
- Impact of Brexit

IAS 1 Critical accounting estimates

- Property valuations
- Pension liabilities
- Lancashire Business Rates pool
- Provision for NNDR appeals

Significant risks

Significant risk dashboard

| Risk | Material | Fraud risk | Planned approach to controls | Level of management judgement/estimate | Management paper expected | Slide no. |
|---|---|---|------------------------------|---|---|-----------|
| Revenue recognition in relation to Capital Grants and Contributions |  |  | D+I |  |  | 13 |
| Management Override of Controls |  |  | D+I |  |  | 14 |

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



Low level of management judgement/estimate



Moderate level of management judgement/estimate



High level of management judgement/estimate

Significant risks

Risk 1 – Revenue recognition in relation to Capital Grants and Contributions

Risk identified

ISA 240 states that when identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks.

We have assessed the income streams of the Council, the complexity of the recognition principles and the extent of any estimates used, and concluded that, with the exception of the material movement in Capital Grants and Contributions, there is no significant risk of fraud.

During 2021/22, the Council has received additional funding in relation to Capital Grants and Contributions with the balance significantly increasing to £4,849k (2020/21: £892k).

We have pinpointed a risk in relation to the accounting treatment of Capital Grants and Contributions to gain assurance that they have been correctly recognised in the financial statements in line with the criteria for revenue recognition.

Our response

We will perform the following:

- Assess the design and implementation of the control in relation to the recognition of Capital Grants and Contributions within taxation and non-specific grant income; and
 - Test a sample of capital grants and contribution to supporting documentation and evaluate management's assessment as to whether the criteria for revenue recognition have been met as at 31 March 2022.
-

Significant risks

Risk 2 – Management override of controls

| | |
|------------------------|---|
| Risk identified | <p>In accordance with ISA 240 (UK), management override of controls is a significant risk due to fraud for all entities. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Council's controls for specific transactions.</p> <p>The key judgements in the financial statements include those which we have selected to be the significant audit risks, (revenue recognition of Capital Grants and Contributions) and any one off and unusual transactions where management could show bias. These are inherently the areas in which management has the potential to use their judgment to influence the financial statements.</p> |
| Our response | <p>In considering the risk of management override, we plan to perform the following audit procedures that directly address this risk:</p> <ul style="list-style-type: none">• We will test the design and implementation of key controls in place around journal entries and key management estimates;• We will risk assess journals and select items for detailed testing. The journal entries will be selected using computer-assisted profiling based on areas which we consider to be of increased interest;• We will review accounting estimates for biases that could result in material misstatements due to fraud; and,• We will obtain an understanding of the business rationale of significant transactions that we become aware of that are outside of the normal course of business for the Council, or that otherwise appear to be unusual, given our understanding of the entity and its environment. |

Value for Money

Areas of focus

We are required to consider the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources. Under the revised requirements of the Code of Audit Practice 2020 and related Auditor Guidance Note 03, we are required to:

- Perform work to understand the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources against each of the three reporting criteria:
 - Financial sustainability: How the body plans and manages its resources to ensure it can continue to deliver its services.
 - Governance: How the body ensures that it makes informed decisions and properly manages its risks.
 - Improving economy, efficiency and effectiveness: How the body uses information about its costs and performance to improve the way it manages and delivers its services.
- Undertake a risk assessment to identify whether there are any risks of significant weaknesses in arrangements;
- If any risks of significant weaknesses are identified, perform procedures to determine whether there is in fact a significant weakness in arrangements, and if so to make recommendations for improvement;
- Issue a narrative commentary in the Auditor's Annual Report (which replaces the Annual Audit Letter), setting out the work undertaken in respect of the reporting criteria and our findings, including any explanation needed in respect of judgements or local context for findings. If significant weaknesses are identified, the weaknesses and recommendations will be included in the reporting, together with follow-up of previous recommendations and whether they have been implemented. Where relevant, we may include reporting on any other matters arising we consider relevant to VfM arrangements, which might include emerging risks or issues.
- Where significant weaknesses are identified, report this by exception within our financial statement audit opinion.

AGN03 requires auditors to set out the results of their risk assessment as part of the audit planning report. Due to the timing of this meeting, this has not been possible to complete prior to the issue of this paper, and we will report to a later Audit Committee on any matters arising from this work. Although we have not completed our planning work, based on our existing understanding of the Council and the wider sector the specific areas that we expect to focus on in understanding the Council's arrangements include:

Impact of Covid-19 on VfM arrangements

Covid-19 has meant bodies have had to adapt many of their arrangements to manage significant increases in demand for specific services, new ways of working as a result of the severe restrictions resulting from the pandemic, and related financial impacts.

Our 2021-22 work on arrangements will include consideration of how the Council's arrangements have adapted to respond to new risks arising, as well as the changes to existing arrangements such as performance targets and internal governance arrangements.

Financial Sustainability

We will review the Council's financial performance throughout the year and achievement of savings, as well as the governance structures that are in place to support the Council's actions in delivering a balanced budget.

The processes and structures that the Council has put in place to monitor and manage the local government reorganisation to help ensure that the proposed benefits are realised.

Audit Quality

Our commitment to audit quality



Our objective is to deliver a distinctive, quality audit to you. Every member of the engagement team will contribute, to achieve the highest standard of professional excellence.

In particular, for your audit, we consider that the following steps will contribute to the overall quality:

We will apply professional scepticism in all areas of our audit but with specific focus on any material issues or significant judgements made by the Council.

We have obtained a deep understanding of your business, its environment and of your processes in revenue, enabling us to develop a risk-focused approach tailored to Fylde Borough Council.

Our engagement team is selected to ensure that we have the right subject matter expertise and industry knowledge. We will involve Information technology, pension and Deloitte Real Estate specialists to support the audit team in our work on the IT environment, the pension balances and the property valuations respectively when required.

In order to deliver a quality audit to you, each member of the core audit team has received tailored learning to develop their expertise in audit skills and more specifically public sector audit, delivered by senior members of our public sector audit team.



Engagement Quality Control Review

We have developed a tailored Engagement Quality Control approach. Our dedicated Professional Standards Review (PSR) function will provide a 'hot' review before any audit or other opinion is signed. PSR is operationally independent of the audit team, and supports our high standards of professional scepticism and audit quality by providing a rigorous independent challenge.

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to establish our respective responsibilities in relation to the financial statements audit, to agree our audit plan and to take the opportunity to ask you questions at the planning stage of our audit. Our report includes:

- Our audit plan, including key audit judgements and the planned scope; and
- Key regulatory and corporate governance updates, relevant to you.

What we don't report

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

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

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

Other relevant communications

We will update you if there are any significant changes to the audit plan.

In the prior year, we communicated audit findings and control recommendations to management, and these will be followed up as part of our audit visits to assess how these have been addressed in the current year.

What we don't report

This report has been prepared for the Audit and Standards Committee, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

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

Paul Hewitson

for and on behalf of Deloitte LLP
Newcastle| 11 January 2023

Sector Developments



Impact of the War in Ukraine

Potential impact on financial matters

Issue

The Russian invasion of Ukraine is impacting upon global financial markets, which is having a direct impact on the investment assets held by both Local Government bodies and LGPS Pension Funds. To date the assets most significantly affected have been those directly linked to Russia and Ukraine – government bonds issued by those countries and companies based there or with significant operations there.

Key considerations from the markets:

- Any holdings denominated in Roubles have lost 30% of their value versus USD since 25th February (based on 1 March rates);
- Although trading of Russian government bonds remains technically possible, at times the bid-offer spread has widened to more than 50%;
- Russian government bonds have lost their investment grade rating from many of the major ratings agencies, primarily reflecting concerns that, although a formal default is unlikely, sanctions may make it impossible for holders to receive interest or principal repayments;
- Overseas institutions have been banned from selling Russian securities on the Moscow Exchange (MOEX) and the operation of the exchange has been suspended;
- Trading in overseas listings of Russian companies have in many cases been suspended, including on the LSE and Deutsche Borse;
- Even if investors are able to find a willing counterparty to a transaction and are able to arrange the settlement process, investors outside of Russia may struggle to receive any proceeds from the sales now that many Russian banks have been barred from Swift – the global banking messaging system;
- Due to the above issues, many funds with significant exposure to Russian assets – notably all Russian equity index tracker funds – have suspended redemptions.

Next steps

The following matters should be considered:

- IAS 19 asset values – often IAS 19 asset values are provided to the actuary in advance of 31 March. Due to the potential for significant market fluctuations between an earlier valuation date and the 31 March, actual values for the 31 March should be used for the 2022 IAS 19 valuation.
- Investment holdings – any investments that the Council holds in Russian or Ukrainian assets.

Ongoing macro-economic uncertainty

Potential impact on financial matters

Issue

The current macro-economic uncertainty and the resulting challenges have a pervasive impact on the financial statements and need to be considered comprehensively across all account balances and disclosures, in particular those involving estimation or judgement.

Sources of uncertainty likely to impact business operations and corporate reporting include:

- **High energy costs and risk of energy shortages** affecting the entire value chain, including suppliers, business operations, and customers, with direct impacts on trading outlook, business continuity planning and liquidity management.
- **Rising interest rates** resulting in declining fixed-rate financial asset values, changes to investment strategies and pressures on pension scheme liquidity and funding.
- **Rising levels of inflation** impacting both businesses and consumers, with the fast-rising cost of living reducing household savings.
- **Foreign exchange volatility** impacting international operations and trading outlook, with a knock-on effect on inflation and interest rates.
- **Commodity availability issues and price volatility**, impacting supply and costs of raw materials, components and finished products for businesses.
- **Supply chain disruptions** to transportation, distribution and warehousing resulting in delays and cost increases through shipping, port operations and distribution by HGV lorries.
- Continued **pressures on labour supply and wages**, resulting from the great resignation, demographic changes in the workforce and shortages of talent.

Next steps

We expect all entities to have undertaken a comprehensive, evidence-based assessment of the risks relating to macroeconomic conditions including for example, higher energy costs, supply chain disruption, rising levels of inflation, commodity availability and labour shortages. Consideration should be given to how those risks affect both the operations of the entity and the impact on the annual report and financial statements as a whole.

We expect entities to have considered the pressures throughout the value chain(s) in which they operate, including an assessment of the risks relating to suppliers, operations and customers.

With regards to financial statements, we expect entities to assess the impact of the macro-economic risks and uncertainties on key judgements and estimates underpinning the measurement of assets and liabilities, and related disclosures, for example in relation to:

- inventory valuations, discount rates used in measuring value in use (as part of impairment assessments),
- pension obligations and other provisions, and
- estimates of cash flow forecasts for impairment reviews of non-financial assets, for expected credit losses, for the recoverability of deferred tax assets, and for viability and going concern.

In developing forecasts and assessing the related accounting implications, entities will need to consider whether the effects of the uncertainties are expected to be short-term or longer term.

Climate Change and the impact on public sector bodies

The NAO has published a guide for Audit and Risk Assurance Committees on climate change risk

Issue

Climate action failure was ranked as the most concerning global risk in the World Economic Forum's Global Risk Report 2021. Climate change is not a future concern, and will only continue to escalate in significance in future. Climate change risks are impacting all government organisations in some form and so it is vital that organisations engage now with climate related risks and opportunities.

The government has committed to achieving 'net zero' greenhouse gas emissions by 2050, and a challenge of this scale will require transformative change to the UK economy. There are a number of departments across government that are central to government's response to climate change. However, the all-encompassing nature of achieving net zero means that all government bodies have a role to play.

The National Audit Office has published "Climate change risk: A good practice guide for Audit and Risk Assurance Committees" (<https://www.nao.org.uk/report/climate-change-risk-a-good-practice-guide-for-audit-and-risk-assurance-committees/>) to help committees recognise how climate change risks could manifest themselves and support them in challenging management on their approach to managing climate change risks.

There are specific risk management principles around governance and leadership, integration, collaboration and best information, risk treatment, risk monitoring, risk reporting and continual improvement. Key climate change considerations are noted for each principle, along with example questions which audit committees can ask management and illustrative examples.

In addition to several questions for consideration in drafting the annual report, specific questions on the financial statements impact include:

- Where climate change risks give rise to a material financial impact, is this appropriately and accurately reflected in the financial statements? For example, an identified risk of rising sea levels and an increase in flooding could impact the valuation of buildings residing near to a floodplain and may require significant impairments.
- Has management fully considered the areas within their financial statements which could be impacted by climate change risks?
- Has management clearly explained material assumptions and uncertainties relating to estimates affected by climate change? For example, does it include relevant sensitivity analysis so users can appreciate the scale of impact.
- Where climate change has significantly affected the valuation of an organisation's assets and liabilities, is this adequately disclosed?
- Where climate change could affect an organisation's ability to continue to operate, is there adequate and appropriate disclosure in the accounting policies on the organisation's going concern status?

Next steps

We recommend the Audit Committee review the guide and consider what assurance they need in this area, including whether financial statement impact and disclosures have been appropriately considered by the Council. Additional guidance on the impact of climate change for finance professionals is available in Deloitte's free training materials prepared in partnership with the ICAEW at <https://deloitte.co.uk/climatechange/>

Recently published Deloitte briefings and articles

Deloitte briefings



The State of the State 2021/22

Towards a new public sector normal

For more information, please visit:

<https://www2.deloitte.com/uk/en/pages/public-sector/articles/the-state-of-the-state.html>

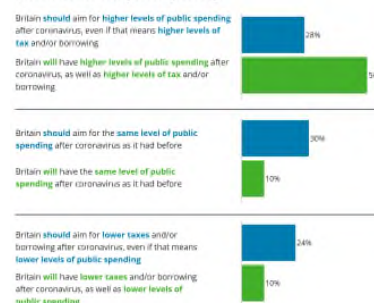
Since March 2020, the UK's government and public services have led radical, exhaustive and dynamic responses to the coronavirus pandemic. This year's State of the State finds them dealing with both the pandemic and its wider repercussions on the public sector's people, the services they deliver and the citizens they serve.

Looking beyond the pandemic, the UK Government has set out its ambition to 'build back better' through infrastructure investment, levelling up economic outcomes across the regions and revitalising the UK's place in the world. At the same time, the policies and politics of Northern Ireland, Scotland and Wales continue to diverge from Westminster. The State of the State explores all of these developments through exclusive research.

The pandemic has fractured public attitudes to tax and spending

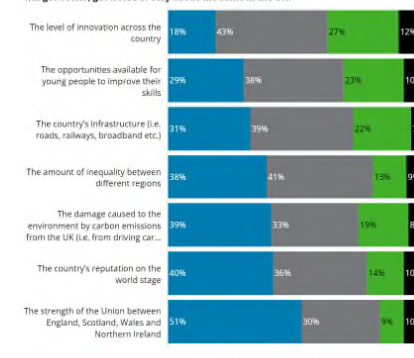
This year, our survey finds the public split evenly between those who would welcome higher levels of tax and spend, those who would like to maintain the same levels as before the pandemic, and those who would prefer lower taxes and lower government spending. This split in attitudes to tax and spend appears to have deepened over the last year. There has been a drop in the those wanting higher spending and a rise in those wanting tax cuts since our last survey.

Public attitudes to public spending



Base: 5,792 Online UK adults 16-75

Thinking about the next few years or so, do you think that each of the following will get better, get worse or stay about the same in the UK?

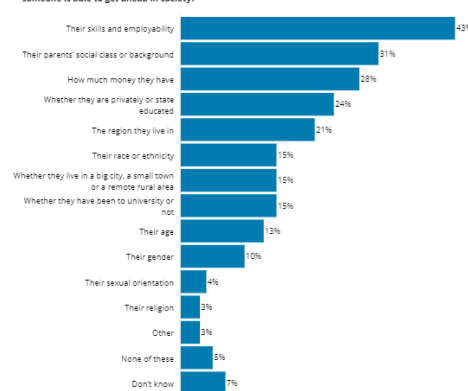


Base: 5,792 Online UK adults 16-75

The public expects the UK to build back, but not necessarily better

This Government has ambitious plans for the UK and aims to 'build back better' from the economic and social damage left by coronavirus, and our survey asked whether people expect those areas of UK life to improve in the next few years. Our results show that the pandemic has left the public fairly pessimistic for the future. Just 13 per cent believe inequalities between regions are set to improve, and 39 per cent think that the environmental damage caused by carbon emissions could get worse not better.

Which two or three of the following, if any, do you think are most important in determining whether someone is able to get ahead in society?



Base: 5,792 Online UK adults 16-75

Levelling up is as much about people as place

As the Government continues to develop its levelling up programme, our survey explored some nuances of place-based thinking. Our citizen survey explored the factors people believe define our opportunities in life. The findings show a complex set of perceptions about social mobility in the UK.

Appendices



Fraud responsibilities and representations

Responsibilities explained



Your Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.



Our Responsibilities:

- We are required to obtain representations from your management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.
- As set out in the significant risks section of this document, we have identified the risk of fraud in the revenue recognition in relation to Capital Grants and Contributions and management override of controls as key audit risks for the Council.
- We will explain in our audit report how we considered the audit capable of detecting irregularities, including fraud. In doing so, we will describe the procedures we performed in understanding the legal and regulatory framework and assessing compliance with relevant laws and regulations.
- We will communicate to you any other matters related to fraud that are, in our judgment, relevant to your responsibilities. In doing so, we shall consider the matters, if any, regarding management's process for identifying and responding to the risks of fraud and our assessment of the risks of material misstatement due to fraud.



Fraud Characteristics:

- Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
- Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

We will request the following to be stated in the representation letter signed on behalf of the Council:

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We are not aware of any fraud or suspected fraud / We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity or group and involves:
 - (i) management;
 - (ii) employees who have significant roles in internal control; or
 - (iii) others where the fraud could have a material effect on the financial statements.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Fraud responsibilities and representations

Inquiries

We will make the following inquiries regarding fraud:



Management:

- Management's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments.
- Management's process for identifying and responding to the risks of fraud in the entity.
- Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity.
- Management's communication, if any, to employees regarding its views on business practices and ethical behaviour.
- Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity.
- We plan to involve management from outside the finance function in our inquiries.



Internal audit

- Whether internal audit has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud.



Those charged with governance

- How those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks.
- Whether those charged with governance have knowledge of any actual, suspected or alleged fraud affecting the entity.
- The views of those charged with governance on the most significant fraud risk factors affecting the entity.

Independence and fees

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

| | |
|---------------------------|---|
| Independence confirmation | We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Council and will reconfirm our independence and objectivity to the Audit and Standards Committee for the year ending 31 March 2022 in our final report to the Audit and Standards Committee. |
| Fees | There are no non-audit fees for 2021/22. |
| Non-audit services | We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advice as necessary. |
| Relationships | We have no other relationships with the Council, its directors, senior managers or affiliates, and have not supplied any services to other known connected parties. |

Independence and fees (continued)

The professional fees expected to be charged by Deloitte in the period from 1 April 2021 to 31 March 2022 are as follows:

| | Current year £ | Prior year £ |
|---|-------------------|-----------------|
| Financial statement audit including Whole of Government Accounts [1]* | 36,729 | 36,729 |
| New value for money arrangements [2]* | TBC | TBC |
| Total audit | 36,729 | 36,729 |
| Total assurance services | - | - |
| Total fees | 36,729 | 36,729 |

[1] The fee reflected here is the scale fee. In line with recent PSAA correspondence that scale fees should be negotiated by each s151 officer based on the individual circumstances of each body, we will be looking to discuss with the Council the current level of fee. Once our 2020/21 work is completed we will be able to provide an estimate of the additional fee due to the impact of continued impact of COVID-19 on the audit risks and procedures performed and ongoing regulatory focus areas requiring additional work to be performed by us in areas of pensions and PPE testing. It also includes an amount in respect of two new auditing standards (ISA540 and ISA570).

[2] We expect the fee for the work under the new Value for Money arrangements to be in the range of £5-10k.

* All additional fees are subject to agreement with PSAA.

Our approach to quality

FRC Audit Quality Inspection and Supervision report

We are proud of our people's commitment to delivering high quality audits and we continue to have an uncompromising focus on audit quality. Audit quality is and will remain our number one priority and is the foundation of our recruitment, learning and development, promotion and reward structures.

In July 2022 the Financial Reporting Council ("FRC") issued individual reports on each of the seven largest firms, including Deloitte, on Audit Quality Inspections providing a summary of the findings of its Audit Quality Review ("AQR") team for the 2021/22 cycle of reviews.

We greatly value the FRC reviews of our audit engagements and firm wide quality control systems, a key aspect of evaluating our audit quality.

In that context, we are pleased that both the overall and FTSE 350 inspection results for our audits selected by the FRC as part of the 2021/22 inspection cycle show an improvement. 82% of all inspections in the current cycle were assessed as good or needing limited improvement, compared to 79% last year. Of the FTSE 350 audits reviewed, 91% achieved this standard (2020/21: 73%). This reflects our ongoing focus on audit quality, and we will maintain our emphasis on continuous improvement as we seek to further enhance quality.

We welcome the breadth and depth of good practice points identified by the FRC particularly those in respect of the effective challenge of management and group audit oversight, where the FRC also reports findings.

We are also pleased that previous recurring findings relating to goodwill impairment and revenue were not identified as key finding in the current FRC inspection cycle, reflecting the positive impact of actions taken in previous years. We nevertheless remain committed to sustained focus and investment in these areas and more broadly to achieve consistently high quality audits.

All the AQR public reports are available on its website:

<https://www.frc.org.uk/auditors/audit-quality-review/audit-firm-specific-reports>

The AQR's 2021/22 Audit Quality Inspection and Supervision Report on Deloitte LLP

"In the 2021/22 public report, we concluded that the firm had made progress on actions to address our previous findings and made improvements in relation to its audit execution and firm-wide procedures. The firm has continued to show improvement, with an increase in the number of audits we assessed as requiring no more than limited improvements to 82% compared with 79% in the previous year and 80% on average over the past five years. It is also encouraging that none of the audits we inspected were found to require significant improvements.

The area which contributed most to the audits requiring improvement was the audit of estimates of certain provisions. There were also key findings in relation to group audits, the review and challenge by the Engagement Quality Control Review (EQCR) partner and the application of the FRC Ethical Standard."



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DECISION ITEM

| REPORT OF | MEETING | DATE | ITEM NO |
|---------------------------------------|-------------------------------|-----------------|---------|
| MIAA, INTERNAL AUDITORS | AUDIT AND STANDARDS COMMITTEE | 19 JANUARY 2023 | 5 |
| INTERNAL AUDIT PROGRESS REPORT | | | |

PUBLIC ITEM

This item is for consideration in the public part of the meeting.

SUMMARY

This report provides an update to the Audit & Standards Committee in respect of the progress made in against the Internal Audit Plan for 2021/22 and 2022/23 and draws attention to matters relevant to members responsibilities.

RECOMMENDATION

1. To receive, consider and comment on the Internal Audit Progress Report which is attached to this covering report.

SUMMARY OF PREVIOUS DECISIONS

Internal Audit Plan 2021/22 approved by the Audit and Standards Committee on 15th July 2021.

Internal Audit Plan 2022/23 approved by the Audit and Standards Committee on 17th March 2022.

| CORPORATE PRIORITIES | |
|--|---|
| Economy – To create a vibrant and healthy economy | ✓ |
| Environment – To deliver services customers expect | ✓ |
| Efficiency – By spending money in the most efficient way | ✓ |
| Tourism – To create a great place to live and visit | ✓ |

REPORT

1. The attached report has been prepared by the Council's internal auditors, MIAA. It provides an update to the Audit and Standards Committee in respect of the assurances, key issues and progress against the Internal Audit Plans 2021/22 and 2022/23. Comprehensive reports detailing findings, recommendations and agreed actions are provided to the organisation, and are available to Committee Members on request.
2. MIAA will present the report to the meeting.

| IMPLICATIONS | |
|---|-----------------|
| Finance | No implications |
| Legal | No implications |
| Community Safety | No implications |
| Human Rights and Equalities | No implications |
| Sustainability and Environmental Impact | No implications |
| Health & Safety and Risk Management | No implications |

| LEAD AUTHOR | CONTACT DETAILS | DATE |
|-----------------------------|--|-----------------|
| Louise Cobain Fiona Hill | louise.cobain@miaa.nhs.uk Fiona.hill@miaa.nhs.uk | 10 January 2023 |

| BACKGROUND PAPERS | | |
|---------------------|---------------|--------------------------------|
| Name of document | Date | Where available for inspection |
| Internal Audit Plan | 15 July 2021 | Internal Audit Team |
| Internal Audit Plan | 17 March 2022 | Internal Audit Team |

Attached documents

Internal Audit Progress Report

Internal Audit Progress Report Audit & Standards Committee (January 2023)

Fylde Borough Council

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2 Key Messages for Audit & Standards Committee Attention

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Appendix B: Performance Indicators

Appendix C: Key Areas from our Work and Actions to be Delivered

Appendix D: Follow-up of Previous Audit Actions

Appendix E: Assurance Definitions and Risk Classifications

Your Team

| Name | Role | Contact Details |
|---------------|--------------------|---|
| Louise Cobain | Engagement Lead | Louise.Cobain@miaa.nhs.uk 07795 564916 |
| Fiona Hill | Engagement Manager | Fiona.Hill@miaa.nhs.uk 07825 592842 |

Limitations

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required. Whilst every care has been taken to ensure that the information in this report is as accurate as possible, based on the information provided and documentation reviewed, no complete guarantee or warranty can be given with regards to the advice and information contained herein. Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

Responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

Reports prepared by MIAA are prepared for your sole use and no responsibility is taken by MIAA or the auditors to any director or officer in their individual capacity. No responsibility to any third party is accepted as the report has not been prepared for, and is not intended for, any other purpose and a person who is not a party to the agreement for the provision of Internal Audit and shall not have any rights under the Contracts (Rights of Third Parties) Act 1999.

Public Sector Internal Audit Standards

Our work was completed in accordance with Public Sector Internal Audit Standards.

1 Introduction

This report provides an update to the Audit and Standards Committee in respect of the progress made in against the Internal Audit Plans for 2021/22 and also 2022/23 and brings to your attention matters relevant to your responsibilities as members of the Audit and Standards Committee.

This progress report provides a summary of Internal Audit activity and complies with the requirements of the Public Sector Internal Audit Standards.

Comprehensive reports detailing findings, recommendations and agreed actions are provided to the organisation, and are available to Committee Members on request. In addition, a consolidated follow up position is reported on a periodic basis to the Audit and Standards Committee.

This progress report covers the period 24 October 2022 – 9 January 2023.

2 Executive Summary

There has been the focus on the following areas:

| | |
|-----------------------|--|
| 2021/22 Audit Reviews | <p>Since the previous Audit and Standards Committee, the following reviews have been finalised:</p> <ul style="list-style-type: none">• Data Sharing Protocols (Limited Assurance) <p>Refer to Appendix C for details of Key Areas and Actions to be delivered.</p> <p>The reviews below are currently at draft report stage or are in progress:</p> <ul style="list-style-type: none">• Property Repairs and Maintenance (draft report) |
| 2022/23 Audit Reviews | <p>Since the previous Audit and Standards Committee, the following reviews have been finalised:</p> <ul style="list-style-type: none">• Homelessness (Moderate Assurance)• Cyber Security and Mobile Devices Follow-up Review (Verbal update to be provided) <p>Refer to Appendix C for details of Key Areas and Actions to be delivered.</p> <p>The following 2022/23 reviews are at draft report stage or are in progress:</p> <ul style="list-style-type: none">• Conflicts of Interest (draft report)• Apprenticeships• Prevent Duty• MasterGov Planning System Review <p>The following 2022/23 reviews have agreed Terms of Reference and are due to start imminently or are being scoped:</p> <ul style="list-style-type: none">• Budgeting |

| | |
|------------------------------------|---|
| | <ul style="list-style-type: none"> • Key Financial Controls • Freedom of Information and Subject Access Requests • Kirkham Regeneration Project Review <p>Appendix A provides an overview of the delivery of your Head of Internal Audit Opinion for 2022/23.</p> <p>Appendix B provides information on Internal Audit performance.</p> |
| Follow Up | <p>A summary of the status of moderate and limited assurance rated reports was provided at the previous Audit and Standards Committee in November. We will continue to follow-up outstanding actions and will provide a further update at the March 2023 meeting.</p> <p>For information, a summary of the status of follow-up activity from the November Audit and Standards Committee is included in Appendix C.</p> |
| Audit Plan Changes | <p>Audit and Standards Committee approval will be requested for any amendments to the original plan and highlighted separately below to facilitate the monitoring process.</p> <ul style="list-style-type: none"> • There are no current proposals to amend the approved audit plan. |
| MIAA Quality of Service Indicators | <p>MIAA operate systems to ISO Quality Standards. Public Sector Internal Audit Standards (PSIAS) require MIAA to 'develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity.' This programme must include internal and external assessments.</p> <p>External assessments must be conducted at least once every five years. Our last external assessment was completed in 2020 and concluded MIAA fully complies with PSIAS (as previously reported to Audit Committee).</p> <p>We also undertake regular internal assessments to ensure our ongoing compliance with requirements. We have recently completed our annual self-assessment of compliance with PSIAS and can confirm full compliance with PSIAS.</p> |
| Cyber Essentials | <p>MIAA are committed to delivering and demonstrating the highest standards of information governance and cyber security in order to protect not only our information and systems but to protect the data we collect and create through our audit and advisory activities with clients.</p> <p>We have consistently submitted a compliant NHS Data Security and Protection Toolkit return and have, for several years, been certified to the national Cyber Essentials standard.</p> <p>This October, however, we enhanced this further becoming one of only circa 20 NHS organisations certified to the more exacting Cyber Essentials Plus standard. Certification to this standard required rigorous independent testing of our cyber security controls across our devices. That we have</p> |

| | |
|----------|--|
| | achieved this certification is a demonstration not only of the security of our devices but also a validation of the proactive monitoring and maintenance that we have in place to protect data and systems from malicious threats. |
| Insights | <p>Collaborative Masterclass Events</p> <ul style="list-style-type: none">• <u>Leading for Social Justice and Health Equality (2nd February 2023)</u> |

Appendix A: Contract Performance

The Public Sector Internal Audit Standards (PSIAS) state that ‘The chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.’

Below sets out the overview of delivery for your Head of Internal Audit Opinion for 2022/23:

| HOIA Opinion Area | Status | Assurance Level |
|--|--------------|-----------------|
| Risk Management | | |
| Risk Management | Qtr 4 | |
| Risk Based Assurances | | |
| Payroll – Blackpool Controls | Qtr 4 | |
| Homelessness | Complete | Moderate |
| Freedom of Information and Subject Access Requests | Planning | |
| Cyber Security and Mobile Devices Follow-up | Complete | Confidential |
| Conflicts of Interest | Draft Report | |
| Budgetary Controls | Planning | |
| Prevent Duty | In progress | |
| Apprenticeships | In progress | |
| Key Financial Controls | Planning | |
| Planning System Review | In progress | |
| Externally Managed Events | Qtr 4 | |
| Recruitment | Qtr 4 | |
| Kirkham Regeneration | Planning | |
| Follow-Up | | |
| Quarter 1 | Complete | |
| Quarter 2 | Complete | |

| HOIA Opinion Area | Status | Assurance Level |
|-------------------|----------|-----------------|
| Quarter 3 | Complete | N/A |
| Quarter 4 | Qtr 4 | |

2021/22 Audit Reviews

| | | |
|-----------------------------------|--------------|----------|
| Property Repairs and Maintenance* | Draft Report | |
| Data Sharing Protocols * | Completed | Limited |
| Section 106* | Completed | Moderate |

Management

| | | |
|--|--|-----|
| Head of Internal Audit Opinion/Annual Report/Annual Governance Statement | Ongoing | N/A |
| Planning and Management | | |
| Reporting and Meetings | | |
| Contingency | Resource used to perform Local Authority Test and Trace Support Payment Scheme Funding Opinion and Energy Grant Advisory work. | N/A |

If due to circumstances beyond our control we are unable to achieve sufficient depth or coverage, we may need to caveat opinions and explain the impact of this and what will be done to retrieve the position in future.

*These reviews were delivered during 22/23, as requested by the Council and as such will be included in the 22/23 Head of Internal Audit Opinion.

Appendix B: Performance Indicators

The primary measure of your internal auditor's performance is the outputs deriving from work undertaken. The following provides performance indicator information to support the Committee in assessing the performance of Internal Audit.

| Element | Reporting Regularity | Status | Summary |
|--|----------------------|--------|---|
| Delivery of the Head of Internal Audit Opinion (Progress against Plan) | Each Audit Committee | Green | There is ongoing engagement and communications regarding delivery of key reviews to support the Head of Internal Audit Opinion. |
| Issue a Client Satisfaction Questionnaire following completion of every audit. | Ongoing | Green | Questionnaire issued with each audit report. |
| Percentage of recommendations raised which are agreed | Quarterly | Green | Actions agreed by the Council on all recommendations raised. |
| Percentage of recommendations which are implemented – reports issued pre April 2021. | Quarterly | Amber | Most recommendations have been implemented or are in progress. However, there are still some outstanding from reports issued before 2020. |
| Percentage of recommendations which are implemented - reports issued post April 2021 | Quarterly | Green | Recommendations not yet due for follow up have been completed or are in progress. |
| Qualified Staff | Annual | Green | MIAA have a highly qualified and diverse workforce which includes 75% qualified staff. The Senior Team delivering the Internal Audit Service to the Council are CCAB/IIA qualified. |
| Quality | Annual | Green | MIAA operate systems to ISO Quality Standards. The External Quality Assessment, undertaken by CIPFA, provides assurance of MIAA's compliance with the Public Sector Internal Audit Standards. MIAA conforms with the Public Sector Internal Audit Code of Ethics. |

Appendix C: Key Areas from our Work and Actions to be Delivered

| Report Title | Data Sharing Protocols | | | |
|-------------------|--|----------|------------|---------|
| Executive Sponsor | Head of Governance | | | |
| Objective | To provide an opinion on the effectiveness of the data sharing agreements in place, and identify opportunities for improvement, where appropriate. | | | |
| Assurance Level | Limited | | | |
| Recommendations | 0 X Critical | 2 x High | 2 x Medium | 0 x Low |
| Summary | <p>Overall, our review identified some areas of good practice however, the review also identified some areas for improvement.</p> <p>The council had in place a Register of Processing Activities (ROPA) however, it did not have a similar register for the data sharing agreements that had been entered into with other organisations. Furthermore, although there were Data Assurance and Data Retention policies there was no specific Data Sharing Agreement Policy.</p> <p>We undertook testing on a sample of processing activities, in only 1 case did we identify a data sharing agreement was in place. In the other activities, we were informed that an agreement was not applicable or had not been entered into.</p> <p>Although we identified there was a Data Privacy Impact Assessment (DPIA) process at the council we were not provided evidence of any DPIA's undertaken for any data sharing arrangements that were in place.</p> <p>Finally, although the council has an annual Information Governance Report, we were informed it did not contain any assurance in relation to the council's data sharing process. Furthermore, it was identified that no group or committee had oversight of the process.</p> | | | |

| Report Title | Homelessness Review |
|-------------------|---|
| Executive Sponsor | Head of Environment and Housing |
| Objective | To evaluate the controls in place to manage key risks which would affect the effective operation of the organisation's system for the management of Section 106 (s106) agreements, and obligations which are entered into are enforced and met. |
| Assurance Level | Moderate |

| Recommendations | 0 X Critical | 1 x High | 4 x Medium | 3 x Low |
|-----------------|--|----------|------------|---------|
| Summary | <p>S 106 agreements are made between the council and developers to secure financial contributions and other measures which a developer must contribute to reduce the impact of that development on the infrastructure available to a local community.</p> <p>Overall, the review identified that there was an adequate system of internal control with some areas requiring improvements.</p> <p>Whilst the Council had a mechanism for recording and monitoring s106 agreements, this was primarily carried out by one member of staff, additionally there was a lack of procedural documentation. Consequently, a priority area for action is to ensure business continuity arrangements are put in place.</p> <p>It was confirmed that the Council had robust governance arrangements in the approval of s106 agreements with final approval being sought by relevant committees. However, this could be improved with further committee monitoring and reporting. Information published on the Council's website could also be improved.</p> <p>The Council had policies in relation to types of schemes in which s106 agreements can be entered into, with this being maintained within the Council's Local Plan to 2032.</p> | | | |

Appendix D: Follow up of previous internal audit recommendations

The status of the actions is as at October 2022.

Previous Fylde Borough Council Audit Team Recommendations from Limited or Moderate Rated Reports. No risk ratings were assigned to recommendations.

| AUDIT TITLE (YEAR ISSUED) | NO OF RECS MADE | ASSURANCE LEVEL | PROGRESS ON IMPLEMENTATION | | | | Comments |
|---|--------------------------|--------------------|----------------------------|----|---|------------|---|
| | | | ✓/S | P | X | Not due | |
| Commercial Property (2019/20) | 9 | Limited | 5 | 2 | 2 | - | Resources and catching up on workloads post Covid-19. A revised Asset Management Plan is being developed. Expected completion by December 2022. |
| Environmental Permitting Regs (2019/20) | 6 | Limited | 5 | 1 | - | - | Remaining action to create an Enforcement almost complete |
| Fuel Consumption (2019/20) | 9 | Limited | 8 | 1 | - | - | The outstanding action will be completed once the meetings between Parks and FMS teams recommence. This is expected to be January 2023. |
| Event Management (2019/20) | 15 | Limited | 14 | 1 | - | - | There is one action outstanding and in progress. |
| Contract Procedure Rules (2020/21) | 5 | Moderate | 4 | 1 | - | - | One action outstanding regarding training. Action is in progress. |
| Sundry Debtors (2019/20) | 8 | Moderate | 7 | 1 | - | - | One action outstanding expected to be completed imminently. |
| VAT (2019/20) | 3 | Moderate | 2 | 1 | - | - | Remaining action in progress expected to be completed by December 2022. |
| Heritage Assets (2019/20) | 5 | Moderate | 3 | 2 | - | - | The actions outstanding are regarding the completion of risk assessments. |
| Homeless Reduction (2019/20) | 5 | Moderate | 5 | - | - | - | All actions completed or superseded with the current Homeless Review. |
| Payroll (2020/21) | 10 | Moderate | 8 | - | - | 2 | Actions are not yet due. |
| TOTALS | 75 | | 61 | 10 | 2 | 2 | |

MIAA Internal Audit Recommendations

| AUDIT TITLE (YEAR) | NO OF RECS MADE | ASSURANCE LEVEL | PROGRESS ON IMPLEMENTATION | | | | OUTSTANDING RECOMMENDATIONS | | | |
|---|--------------------------|--------------------|----------------------------|----|---|------------|--------------------------------|---|----|----|
| | | | ✓/S | P | X | Not due | C | H | M | L |
| Asset Disposals (2021/22) | 7 | Limited | 5 | 2 | - | - | - | 1 | 1 | - |
| Housing Benefits (2021/22) | 3 | Substantial | - | 3 | - | - | - | - | 3 | - |
| Project Management (2021/22) | 1 | Moderate | - | 1 | - | - | - | 1 | - | - |
| Risk Management (2021/22) | 7 | Moderate | 1 | - | - | 6 | - | 1 | 3 | 2 |
| Health & Safety (2021/22) | 6 | Moderate | 5 | - | 1 | - | - | - | - | 1 |
| Shared Service and Third Party Assurance (2021/22) | 4 | Substantial | 2 | -- | - | 2 | - | - | - | 2 |
| Treasury Management (2021/22) | 2 | High | 1 | - | - | 1 | - | - | - | 1 |
| Key Financial Controls (2021/22) | 8 | Substantial | 6 | - | - | 2 | - | - | 1 | 1 |
| NNDR & Council Tax (2021/22) | 5 | Substantial | 1 | - | - | 4 | - | - | 2 | 2 |
| S106 (2021/22) | 8 | Moderate | 4 | - | - | 4 | - | 1 | 2 | 1 |
| TOTALS | 51 | | 25 | 6 | 1 | 19 | - | 4 | 12 | 10 |

Key to recommendations:

- ✓/S Implemented or Superseded
- P Partially implemented/recommendation in progress
- X Recommendation not implemented
- ND Not due for follow up
- C Critical priority recommendation
- H High priority recommendation
- M Medium priority recommendation
- L Low priority recommendation

Asset Disposals – The GRACE system requires update along with the Corporate Verification document, these are in progress and expected to be completed by March 2023

Housing Benefits – All actions are in progress and expected to be completed by November 2022.

Project Management – The new Project Management Officer has now taken up the post and expects the action to be completed by 31st December 2022.

Risk Management – Remaining actions not yet due, to be completed by the newly appointed Risk Manager by 31st December 2022. Outstanding High risk recommendation is to provide training and guidance notes for the use of GRACE.

Health & Safety – Outstanding low priority recommendation is for computer training to be made available at the depot, this along with other options is being explored.

Shared Service and Third Party Assurance – Two low priority recommendations not yet due.

Treasury Management – One low priority recommendation not yet due.

Key Financial Controls – Two recommendations not yet due.

NNDR & Council Tax - Four recommendations not yet due.

S106 – All recommendations not yet due.

Appendix E: Assurance Definitions and Risk Classifications

| Level of Assurance | Description |
|--------------------|---|
| High | There is a strong system of internal control which has been effectively designed to meet the system objectives, and that controls are consistently applied in all areas reviewed. |
| Substantial | There is a good system of internal control designed to meet the system objectives, and that controls are generally being applied consistently. |
| Moderate | There is an adequate system of internal control, however, in some areas weaknesses in design and/or inconsistent application of controls puts the achievement of some aspects of the system objectives at risk. |
| Limited | There is a compromised system of internal control as weaknesses in the design and/or inconsistent application of controls puts the achievement of the system objectives at risk. |
| No | There is an inadequate system of internal control as weaknesses in control, and/or consistent non-compliance with controls could/has resulted in failure to achieve the system objectives. |

| Risk Rating | Assessment Rationale |
|-------------|---|
| Critical | Control weakness that could have a significant impact upon, not only the system, function, or process objectives but also the achievement of the organisation's objectives in relation to: <ul style="list-style-type: none"> the efficient and effective use of resources the safeguarding of assets the preparation of reliable financial and operational information compliance with laws and regulations. |
| High | Control weakness that has or could have a significant impact upon the achievement of key system, function, or process objectives. This weakness, whilst high impact for the system, function or process does not have a significant impact on the achievement of the overall organisation objectives. |
| Medium | Control weakness that: <ul style="list-style-type: none"> has a low impact on the achievement of the key system, function, or process objectives. has exposed the system, function, or process to a key risk, however the likelihood of this risk occurring is low. |
| Low | Control weakness that does not impact upon the achievement of key system, function, or process objectives; however, implementation of the recommendation would improve overall control. |

DECISION ITEM

| REPORT OF | MEETING | DATE | ITEM NO |
|---------------------|-------------------------------|-----------------|---------|
| HEAD OF GOVERNANCE | AUDIT AND STANDARDS COMMITTEE | 19 JANUARY 2023 | 6 |
| CONSTITUTION | | | |

PUBLIC ITEM

This item is for consideration in the public part of the meeting.

SUMMARY

Changes to the size of the council and the committee structure will take effect in May. Changes to the council's committee structure are also expected to be implemented. The changes require amendments to be made to the council's constitution. The committee appointed a working group to consider the constitutional changes in depth. This report describes the changes that the working group has recommended, and asks the committee to recommend them to the council.

RECOMMENDATION

1. Recommend that the council adopts the documents referred to in paragraph 4 of the report (together with any updated members' allowances scheme) as the council's constitution with effect from 9 May 2023

SUMMARY OF PREVIOUS DECISIONS

Audit and Standards Committee 17 March 2022: Established a cross-party Working Group comprising Councillors Buckley, Small, Oades¹, Lee, Gaunt and Nash, to undertake a time-bound piece of work to review the constitution, proposing any changes to the Committee for its agreement, prior to the council being invited to endorse any changes prior to the May 2023 local election.

| CORPORATE PRIORITIES | |
|--|---|
| Economy – To create a vibrant and healthy economy | ✓ |
| Environment – To deliver services customers expect | ✓ |
| Efficiency – By spending money in the most efficient way | ✓ |
| Tourism – To create a great place to live and visit | ✓ |

¹ Councillor Peter Collins replaced Councillor Oades as a member of the working group on becoming leader of the Independent group.

REPORT

CONTEXT

1. Following the review of the council's electoral arrangements by the Local Government Boundary Commission for England, the number of councillors making up the council will reduce from 51 to 37. This will have effect from when councillors elected at the elections on May 4 take office.
2. Members have expressed an intention to move to a different decision-making structure from the municipal year 2023-4, while remaining within the parameters of a committee governance model. The new structure would replace the four programme committees with one Executive Committee, which would also have responsibility for planning policy. Two scrutiny committees (one primarily externally focussed and one primarily internally focussed) would be established. Finally, ethical standards would fall under the remit of a standalone Standards Committee, instead of being the responsibility of the Audit and Standards Committee.
3. The constitution needs to be amended to take account of the changes outlined above. The committee established a working group to consider and make recommendations on the changes. The draft revised constitution which should be read with this report incorporates the amendments recommended by the working group, together with minor consequential and drafting alterations.

THE DRAFT REVISED CONSTITUTION

4. The draft revised constitution, which the committee is asked to recommend for adoption by the council, can be accessed through the following link: [\[LINK\]](#). Recommended amendments are generally shown as tracked changes.
5. The draft revision does not include the members' allowances scheme, as the scheme to apply for 2023-4 will be the subject of a separate report and recommendation to the council.
6. Councillors will want to peruse the documents that comprise the draft revised constitution themselves. However, the paragraphs below provide a guide to and summary of the amendments that are recommended.

AMENDMENTS THAT RESULT FROM THE CHANGES TO COUNCIL SIZE AND COMMITTEE STRUCTURES

7. In Part 2: Articles of the Constitution:

Article 2.01 now refers to 37 councillors instead of 51.

In article 2.03, councillors can require local crime and disorder matters to be placed on the agenda of the scrutiny committee, instead of the EHH Committee (n.b. reference now updated to refer specifically to the Community Focus Scrutiny Committee).

Article 8 is rewritten. It now relates to the new Audit and Governance Committee, and incorporates the full "mission statement" for the committee, which was previously set out in part 3 of the constitution "responsibility for functions". The text was incongruous there, because that section is intended to set out delegated responsibilities for decision-making. Placing the "mission statement" in the articles of the constitution is both more logical and gives the material more prominence. The "mission statement" itself has been updated in line with recognized best practice and advice from internal audit.

8. In Part 3: Responsibility for functions

Paragraph three of the introductory material now refers to the new committee structure.

In section 2, the functions of the Planning Committee that relate to planning policy are removed (and fall instead within the remit of the Executive Committee). The section relating to the Audit and Standards Committee is removed and split between Audit and Governance Committee (placed in article 8 in part 2) and Standards Committee (below).

Section 3 now relates to the Executive Committee instead of the programme committees. It includes terms of reference discussed at the working group the effect of which is that everything that does not fall somewhere else falls within the remit of the Executive Committee, and introduces lead members.

Section 4 describes the functions and role of the two scrutiny committees and is new.

Section 6 describes the functions and role of the standalone Standards Committee and is extracted from the existing material for the Audit and Standards Committee.

The referral and recovery rules now in section 7 have been revised as follows, as required by the legislation governing scrutiny committees:

- (i) to allow a recovery request to be made by a scrutiny committee; and
 - (ii) to allow a recovery request to ask for the decision to be either reconsidered by the committee who made it (which is presently not possible), or to be referred to the council
9. In part 6: Financial Procedure Rules, budgetary approvals presently within the power of the Finance and Democracy Committee would be given instead by the Executive Committee. Similarly consultations presently required to be with the chairman of the Finance and Democracy Committee chairman would now be with chairman of the Executive Committee . Fees and charges would be recommended by the Executive Committee instead of programme committees.

OTHER SUBSTANTIVE CHANGES

10. In part 2: Articles of the Constitution:

Article 15 is amended to:

- (i) provide a filter to exclude “questions” from members of the public which are not questions;
- (ii) have the question read out by an officer rather than the member of the public who submitted it; and
- (iii) remove the right to a supplementary question.

(This is not shown as a tracked change in the linked document).

11. In part 5: Officer Employment Procedure Rules, amendments are made to avoid potential confusion caused by the statutory definition of “chief officer” only applying to the heads of service who report to the Chief Executive and not those who report to the Deputy Chief Executive. The change is to use the term “Designated Officer” instead and apply it to those who would sensibly be regarded as chief officers, that is the Deputy Chief Executive and heads of service. The Chief Officers Employment Committee can appoint to all those positions.
12. Part 5c: Protocol on Member/Officer Relations is replaced in its entirety by a new protocol.
13. In Part 5f: Protocol for Members on Outside Bodies, amendments are made so that reporting forms completed by members representing the council on outside bodies would be considered by scrutiny committees instead of being sent to all councillors. Members failing to complete a form would be notified to scrutiny chairmen instead of to programme committee chairmen.

MINOR, CONSEQUENTIAL AND FORMATTING AMENDMENTS

14. A number of minor amendments have also been made to correct formatting and numbering errors, make amendments consequential on the structural changes and on the changes made to the management structure in 2021 and to standardise pronouns to “they/their”, in line with modern drafting practice.

| IMPLICATIONS | |
|---|---|
| Finance | No implications |
| Legal | The council is required to maintain a constitution by section 9P of the Local Government Act 2000 |
| Community Safety | No direct implications |
| Human Rights and Equalities | No direct implications |
| Sustainability and Environmental Impact | No direct implications |
| Health & Safety and Risk Management | No direct implications |

| LEAD AUTHOR | CONTACT DETAILS | DATE |
|-------------|--|-----------------|
| Ian Curtis | ian.curtis@fylde.gov.uk & Tel 01253 658506 | 10 January 2022 |

| BACKGROUND PAPERS | | |
|-------------------|------|--------------------------------|
| Name of document | Date | Where available for inspection |
| None | | |

Linked documents

The amended part of the constitution, with tracked changes, can be viewed on CMIS [here](#)

INFORMATION ITEM

| REPORT OF | MEETING | DATE | ITEM NO |
|--|-------------------------------|-----------------|---------|
| HEAD OF GOVERNANCE | AUDIT AND STANDARDS COMMITTEE | 19 JANUARY 2023 | 7 |
| REGULATION OF INVESTIGATORY POWERS ACT 2000: AUTHORISATIONS | | | |

PUBLIC ITEM

This item is for consideration in the public part of the meeting.

SUMMARY OF INFORMATION

Councillors are obliged to review the use of covert surveillance and covert human intelligence sources by the council at least quarterly. In the period to January 2023, there were no authorised operations.

SOURCE OF INFORMATION

Head of Governance

INFORMATION

1. The Regulation of Investigatory Powers Act 2000 ("RIPA") regulates covert investigations by a number of bodies, including local authorities. It was introduced to ensure that individuals' rights are protected while also ensuring that law enforcement and security agencies have the powers they need to do their job effectively.
2. Fylde Council is therefore included within RIPA framework with regard to the authorisation of both directed surveillance and of the use of covert human intelligence sources.
3. Directed surveillance includes the covert surveillance of an individual in circumstances where private information about that individual may be obtained. A covert human intelligence source ("CHIS") is a person who, pretending to be someone that they are not, builds up a relationship of trust with another person for the purpose of obtaining information as part of an investigation.
4. Directed surveillance or use of a CHIS must be authorised by the chief executive or deputy chief executive and confirmed by a Justice of the Peace. All authorisations are recorded centrally by the Head of Governance.
5. This is the required report on the use of RIPA. The information in the table below is about authorisations granted by the council during the quarter concerned.

| Period | Directed surveillance | CHIS | Total | Purpose |
|------------------------------------|-----------------------|------|-------|---------|
| 11 November 2022 – 19 January 2023 | 0 | 0 | 0 | |

Figures correct when report published. Officers will verbally update members if the figures have changed by the date of the meeting.

WHY IS THIS INFORMATION BEING GIVEN TO THE COMMITTEE?

Regulations under the Regulation of Investigatory Powers Act 2000 ("RIPA") require councillors to consider a report on the use of RIPA at least quarterly.

FURTHER INFORMATION

Contact Ian Curtis on 01253 658506 or at ian.curtis@fylde.gov.uk.