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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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.

To communicate audit scope

To provide timely and relevant observations

To provide additional information to help you fulfil your broader responsibilities

Oversight of external audit

- At the start of each annual audit cycle, ensure that the scope of the external audit is appropriate.

Integrity of reporting

- Impact assessment of key judgements and level of management challenge.
- Review of external audit findings, key judgements and level of misstatements.
- Assess the quality of the internal team, their incentives and the need for supplementary skillsets.
- Assess the completeness of disclosures, including consistency with disclosures on business model and strategy.

Internal controls and risks

- Review the internal control and risk management systems.
- Explain what actions have been, or are being, taken to remedy any significant failings or weaknesses.

Oversight of internal audit

- Monitor and review the effectiveness of the internal audit activities.
- Consider annually whether the scope of the internal audit programme is adequate.

Whistle-blowing and fraud

- Ensure that appropriate arrangements are in place for the proportionate and independent investigation of any concerns that are raised by staff in connection with improprieties.

Our audit explained

We tailor our audit to your business and your strategy

Identify changes in your business and environment

We have spent time with management understanding the current year matters to assist with the preparation of our risk assessment for the audit. The matter which will continue to have the biggest impact will be COVID 19. We will continue to keep this under review throughout the audit process.

Scoping

Our work will be carried out in accordance with the Code of Audit Practice and supporting auditor guidance notes issued by the NAO.

More detail is given on page 7.

In our final report

In our final report to you we will conclude on the significant risks identified in this paper, report to you our other findings, and detail those items we will be including in our audit report.

Determine materiality

We have determined materiality for the Council of £899k (2020/21: £867k). This is based on 2% of gross revenue per the 21/22 draft financial statements. We will report to you any misstatements above £45k (2020/21 £43k). We will also report to you any misstatements below this threshold if we consider them to be material by nature.

Significant risk assessment

We have made changes to the significant risks identified for 2021/22 compared with those for 2020/21, with the downgrading of the risk around inappropriate capitalisation of expenditure and the recognition of a new significant risk around revenue recognition, specifically in regards to Capital Grants and Contribution.

More details on the significant risks for the current year are given on pages 12 to 14.

Quality and Independence

We confirm all Deloitte network firms and engagement team members are independent of Fylde Borough Council. We take our independence and the quality of the audit work we perform very seriously. Audit quality is our number one priority.

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

Planning	Year end fieldwork	Reporting
Planning meetings to inform risk assessment and identify judgemental accounting issues. Update understanding of key business cycles and changes to financial reporting. Document design and implementation of key controls. Review of key Council documents including Cabinet, Council and Audit Committee minutes. Completion of risk assessment procedures in relation to our value for money responsibilities.	Substantive testing of all areas. Finalisation of work in support of value for money responsibilities. Detailed review of annual accounts and report, including Annual Governance Statement. Review of final internal audit reports and opinion. Completion of testing on significant audit risks.	Year-end closing meetings. Reporting of significant control deficiencies. Signing audit reports in respect of Financial Statements. Issue final Audit Committee paper. Issue Annual Auditor's Report (including narrative commentary on arrangements to secure economy, efficiency and effectiveness in the use of resources)
2021/22 Audit Plan	Final report to the Audit Committee	
October- November 2022	**November 2022 - February 2023**	**March 2023**

Ongoing communication and feedback

Materiality

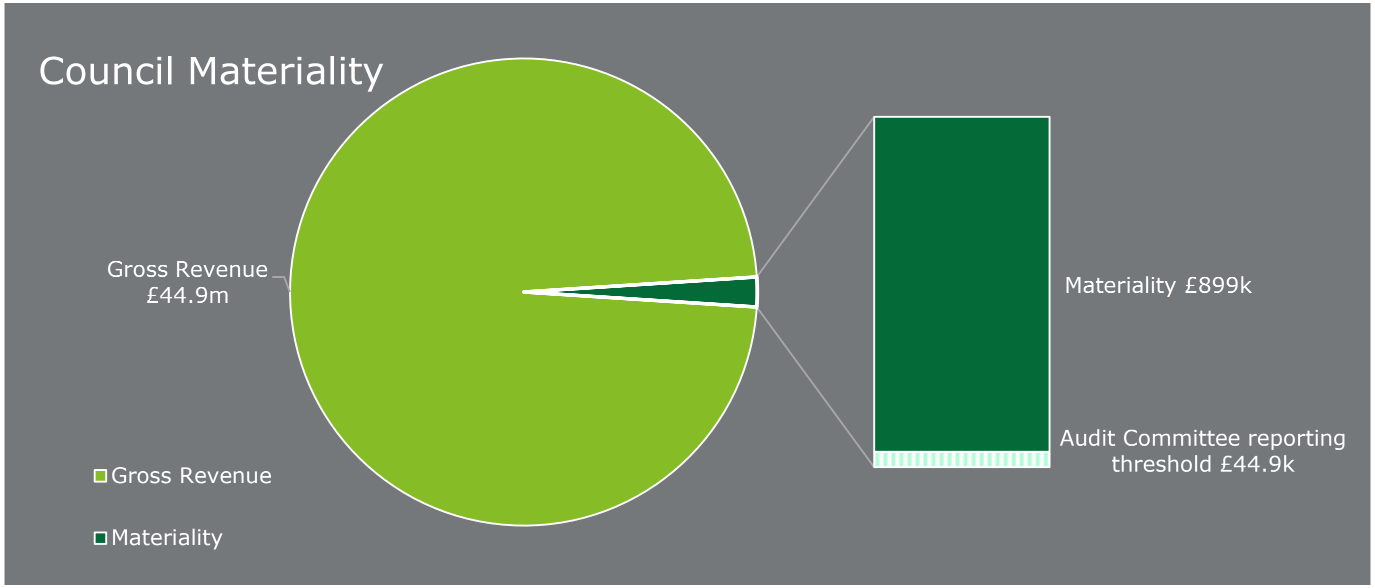
Our approach to materiality

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	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. 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.
Our response	In considering the risk of management override, we plan to perform the following audit procedures that directly address this risk: • 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:

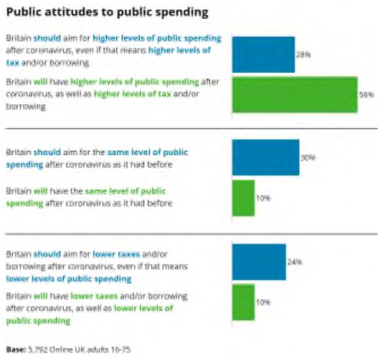
https://www2.deloitte.com/uk/en/pages/public-sector/articles/the-state-of-the-state.html

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.

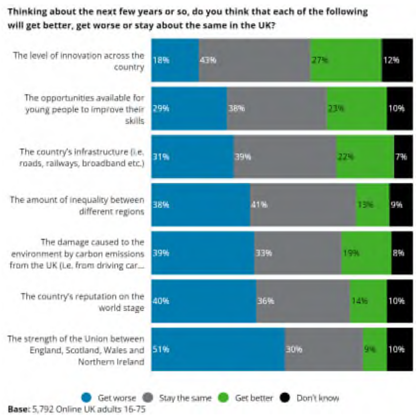
The pandemic has fractured public attitudes to tax and spending

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.



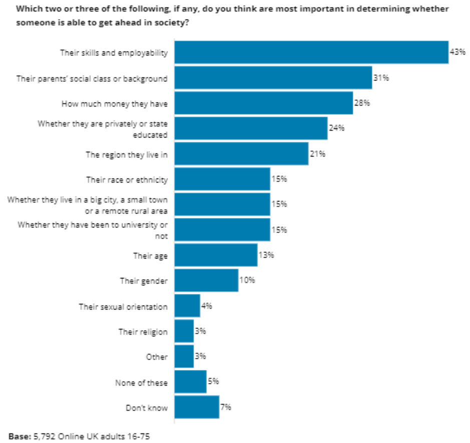
Levelling up is as much about people as place

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.



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.



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."