

Fylde Borough Council

Report to the Audit and Standards Committee for the year ending 31 March 2021

Issued on 18 April for the meeting on 20 April 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.

I have pleasure in presenting our report to the Audit and Standards Committee (the Committee) of Fylde Borough Council (the "Council") for the 2020/21 audit. We would like to take this opportunity to thank you for your assistance and co-operation during this year's external audit.

The scope of our audit was set out within our planning report.

Status of our Statement of Accounts audit	<p>We have the following principal matters to complete as part of our audit:</p> <ul style="list-style-type: none">• Finalisation of internal consultation on level of uncorrected misstatements and audit opinion;• Completion of internal quality control procedures;• Receipt of signed management representation letter; and• Our review of events since 31 March 2021 through to signing.
Status of our Value for Money audit	<p>Our Value for Money work is on-going and will be reported in our Auditor's Annual Report, which has a publication deadline under the National Audit Office Auditor Guidance Note 3 of three months after the signing of the Audit Opinion.</p> <p>From our work to date, we have not identified any significant weaknesses in the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources.</p> <p>Our opinion will state that our work is ongoing.</p>

Introduction

The key messages in this report (continued)

Conclusions from our testing

- The key judgements in the audit process related to:
 - Inappropriate capitalisation of expenditure; and
 - Management override of controls.
- Based on our work to date, we have not identified any significant audit adjustments or disclosure deficiencies.
- Based on the current status of our audit work, we envisage issuing an unmodified audit opinion, with no reference to any matters in respect of the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources, or the Annual Governance Statement.

Narrative Report & Annual Governance Statement

- We have reviewed the Council's draft Annual Report and Annual Governance Statement to consider whether it is misleading or inconsistent with other information known to us from our audit work.
- The Annual Governance Statement complies with the Delivering Good Governance guidance issued by CIPFA.
- We have identified a small number of best practice matters to raise with you in respect of the Narrative Report, see page 23.

Duties as public auditor

- We did not receive any queries or objections from local electors this year.
- We have not identified any matters that would require us to issue a public interest report. We have not had to exercise any other audit powers under the Local Audit and Accountability Act 2014.

Whole of Government Accounts (WGA)

- The NAO have not yet issued the group instructions for the WGA reporting and we will provide an update on any changes to the requirements once these have been received.

Paul Hewitson
Audit Director

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.

In 2020/21, auditors identified that local authorities in the UK have not been properly accounting for infrastructure assets since the move to IFRS due to deficits in the information held by authorities. 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) issuing a Statutory Instrument on 30 November 2022 which came into effect on 25 December 2022. This has helped to resolve some of the issues identified, whilst a permanent solution is identified. In addition in the middle of January CIPFA published guidance in relation to the application of the SI and the changes to the Code.

Officers have undertaken a process to componentise the infrastructure assets held to more accurately classify the assets into appropriate categories, and to reassess what the useful economic lives (UEL) should be for each category.

We have held a number of discussions with the finance team to understand the process taken by the Council and the basis for its decision making. The Council has provided supporting documentation in relation to the updated UELs, and we have reviewed the documentation and completed our required testing.

These changes have a clearly trivial impact on the depreciation charge recognised in the year and the Council has elected not to make the change in the current year financial statements. The Council has updated the infrastructure assets accounting policy to provide additional detail around the approach taken.

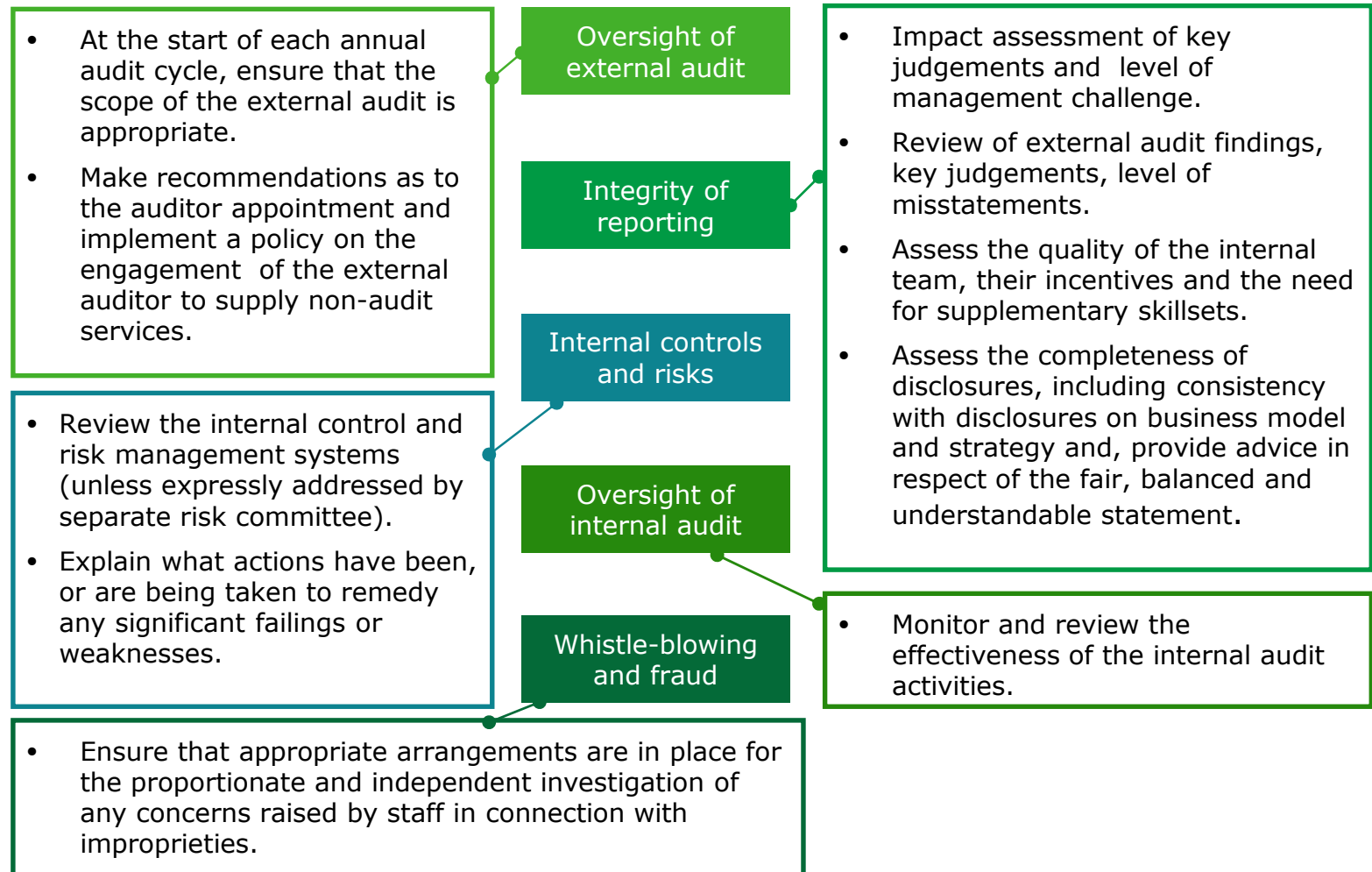
Responsibilities of the Audit and Standards Committee

Helping you fulfil your responsibilities

Why do we interact with the Audit and Standards Committee?









As a result of regulatory change in recent years, the role of the Audit Committee has significantly expanded. We set out here a summary of the core areas of Audit Committee responsibility to provide a reference in respect of these broader responsibilities and highlight throughout the document where there is key information which helps the Audit Committee in fulfilling its remit.



Quality indicators

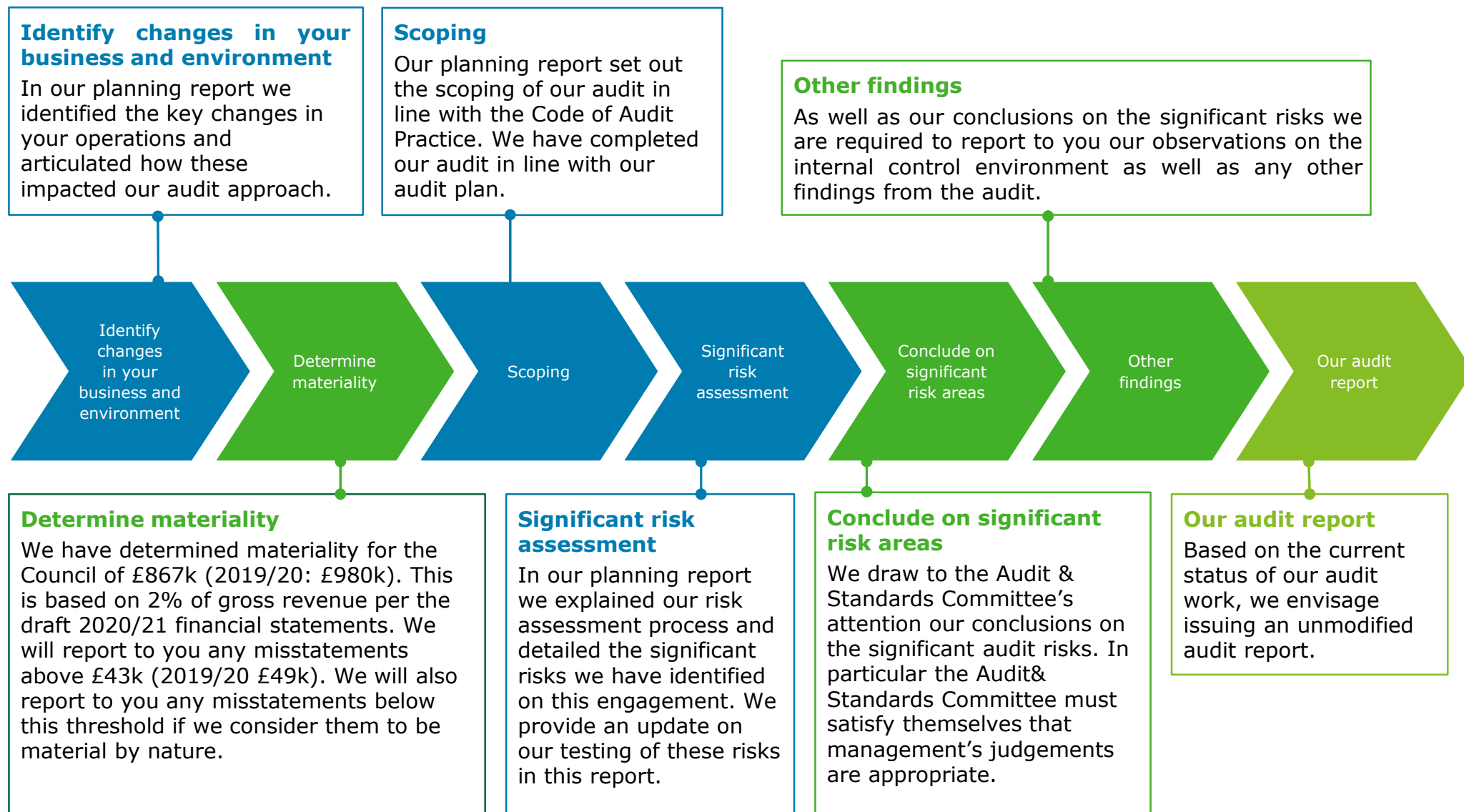
Impact on the execution of our audit

Management and those charged with governance are in a position to influence the effectiveness of our audit, through timely formulation of judgements, provision of accurate information, and responsiveness to issues identified in the course of the audit. This slide summarises some key metrics related to your control environment which can significantly impact the execution of the audit. We consider these metrics important in assessing the reliability of your financial reporting and provide context for other messages in this report.

Area	Grading	Reason
Timing of key accounting judgements		We noted no issues with the time scale for being presented with management's key accounting assumptions.
Access to finance team and other key personnel		The finance team have been very responsive to audit requests, although with the small finance team and the timing of the initial audit work for the 2020-21 financial statements there were some delays at that time due to periods of absence for members of the finance team and wider Council personnel. Subsequently there have been significant delays due to the issues identified with infrastructure assets which has impacted on the whole local government sector.
Quality and accuracy of management accounting papers		Management accounting papers provided have been accurate and produced to a high quality.
Quality of draft financial statements		We noted no significant issues with the quality of the financial statements.
Response to findings and recommendations		We have raised a small number of findings from our work to date, these are detailed on page 14.
Volume and magnitude of identified errors		There were a low volume and magnitude of identified errors.









Our audit explained

We tailor our audit to your business and your strategy






Significant risks

Dashboard

Risk	Material	Fraud risk	Approach to controls testing	Controls testing conclusion	Consistency of judgements with Deloitte's expectations	Comments	Page no.
Significant risks							
Inappropriate capitalisation of expenditure				Satisfactory		Our work is complete.	10
Management override of controls				Satisfactory		Our work is complete.	11

Controls approach adopted

-  Assess design & implementation
-  Test operating effectiveness of relevant controls
-  Involvement of IT specialists

Significant risks (continued)

Inappropriate capitalisation of expenditure

Risk identified	<p>Under UK auditing standards, there is a presumed risk of revenue recognition due to fraud. We have rebutted this risk, and instead believe that the fraud risk lies within the capitalisation of expenditure in year. This is because there is an inherent fraud risk associated with the recording of expenditure in order for the Council to report a more favourable year-end position. One way that Local Authorities can manipulate the expenditure outturn is through the inappropriate capitalisation of revenue expenditure. Based on our analysis, the Council has undertaken a material level of capital additions in year and as a result we believe that if the Council were to inappropriately record expenditure it would be through the inappropriate capitalisation of revenue items.</p>
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Deloitte response and challenge	<p>Our work in this area includes the following:</p> <ul style="list-style-type: none">• We have assessed the design and implementation of the controls in relation to recording the capitalisation of expenditure; and• We have performed focused testing in relation to the capitalisation of expenditure through testing a sample of transactions posted during the year.
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Status	<p>We have not identified any issues from our work in relation to the key judgements made by management.</p>
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Significant audit risks (continued)

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 risk, (capitalisation of expenditure) 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.

Deloitte response and challenge

We have considered the overall sensitivity of judgements made in preparation of the Statement of Accounts, and note that senior management's remuneration is not tied to particular financial results.

We have considered these factors and other potential sensitivities in evaluating the judgements made in the preparation of the financial statements.

Journals

- We have tested the design and implementation of controls in relation to journals.
- We have made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.
- We have used Spotlight data analytics tools to test a sample of journals, based upon identification of items of potential audit interest. Our analysis has covered all journals posted in the year.

Significant transactions

- We have not identified any significant transactions outside the normal course of business or any transactions where the business rationale was not clear.
-

Significant audit risks (continued)

Management override of controls

Deloitte response and challenge**Accounting estimates**

- We have performed design and implementation testing of the controls over key accounting estimates and judgements.
- The key judgement in the financial statements are those selected as significant audit risks: inappropriate capitalisation of expenditure.
- We have reviewed accounting estimates for biases that could result in material misstatements due to fraud. We note that overall the changes to estimates in the period were balanced and did not indicate a bias to achieve a particular result.
- We have tested accounting estimates and judgements, focusing on the areas of greatest judgement and value. Our procedures included comparing amounts recorded or inputs to estimates to relevant supporting information from third party sources.

Status

We have not identified any adjustments in relation to management override of control but have raised one recommendation on journal approvals, see page 15.

Covid-19 pandemic

Impact on reporting and our audit

Impact on annual report and financial statements	
Impact on property, plant and equipment	The Royal Institute of Chartered Surveyors issued a practice alert, as a result of which valuers identified a material valuation uncertainty at 31 March 2020 for most types of property valuation. This practice alert was withdrawn in September 2020. Valuation reports at March 2020 typically identified a need to consider potential impairments in future periods. Our work on property valuations included challenging whether the Council had appropriately considered the impact on the valuation (including any changes as a result of the pandemic and consequent service and organisational changes in the Council on the “modern equivalent asset” assumed in valuations). We note the valuer has continued to include a material valuation uncertainty within their report and we are assessing whether this requires any disclosure within our audit opinion.
Impact on pension fund investment measurement	As a result of the Covid-19 pandemic pension fund investments have been subject to volatility. At 31 March 2021, we noted that the Council’s share of pension fund assets had increased by £6.6m, excluding the impact of the additional upfront contributions.
Narrative and other reporting issues	We have considered how the Council has reflected the impact of the pandemic in its reporting, including: <ul style="list-style-type: none">• Narrative Report - discussion of the impact on services, operations, performance, strategic direction, resources and financial sustainability. Ensuring that this reflected the significant financial challenge that the Council has experienced.• Accounts disclosures on the impact on judgements and estimation uncertainty.
Events after the reporting period	The Council will need to consider the events after the Reporting Period and whether these events will be adjusting or non-adjusting and make decisions on a transaction by transaction basis.

Value for money

Our work is ongoing and will be reported in our Auditor's Annual Report

Value for Money requirements

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 ('AGN03'), 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, governance, and improving economy, efficiency and effectiveness);
 - 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, 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 Value for Money arrangements, which might include emerging risks or issues arising; and
 - Where significant weaknesses are identified, report this by exception within our financial statement audit opinion.
-

Status of our work

Our Value for Money work is ongoing, and will be reported in our Auditor's Annual Report, which has a publication deadline under the National Audit Office Auditor Guidance Note 3 of three months after the signing of the Audit Opinion.

Work performed to obtain an understanding of the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources

As part of our risk assessment, we have reviewed the summary of Value for Money arrangements prepared by the Council, including the supporting documentation provided on the arrangements, and will hold follow-up discussions on areas where additional information is required. In addition, we have:

- reviewed of the Council's draft Annual Governance Statement;
 - reviewed internal audit reports through the year and the Head of Internal Audit Opinion;
 - considered issues identified through our other audit and assurance work; and
 - considered the Council's financial performance and management throughout 2020/21.
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Findings of our work to date

Our work is ongoing but we have not identified to date any risks of significant weakness in arrangements to secure economy, efficiency and effectiveness in the use of resources.

Our opinion will state that work is on-going.

Your control environment and findings

Control deficiencies and areas for management focus

Observation	Deloitte recommendation	Management response and remediation plan
<p>Journals Approval Some journals are only reviewed and approved retrospectively rather than prior to posting.</p>	<p>All journals should be reviewed and approved by an appropriately senior member of staff prior to be posted in the system.</p>	<p>The majority of journals are currently approved prior to posting. We will review the existing process to ensure that the remaining journals are similarly reviewed and approved by an appropriately senior member of staff prior to posting.</p>
<p>S106 liabilities The S106 liability is split between short term and long term based on the Council's planned capital expenditure.</p>	<p>The liability should be split between short and long term based on the terms of the specific agreements or where there are contractual commitments in relation to the planned capital spend.</p>	<p>We will review the approach to the treatment of S106 liabilities to ensure that the liability is split between short and long term based on the specific terms of the agreements or where there are contractual commitments in relation to planned capital spend.</p>
<p>IT systems Fylde Council have not had any meetings with Blackpool Council to discuss the performance of the IT system, and any necessary feedback etc</p>	<p>Current documentation received over the responsibilities and expectation of Blackpool Council does not allow Fylde Council to gain assurance that the key IT general computer controls including information security, change management and IT operations are in place.</p>	<p>We will review the arrangements with Blackpool Council in order to gain the relevant assurances that key IT controls are in place.</p>

Your control environment and findings

Control deficiencies and areas for management focus (continued)

Observation	Deloitte recommendation	Management response and remediation plan
General IT controls A small number of best practice improvements have been identified by our IT specialists.	The Computer Security Policy is recorded and maintained in a Word format, which implies that the policy is at risk of being inappropriately amended. Data is not formally classified in terms of its sensitivity	We will review the best practice improvements which have been identified and implement any actions accordingly.
S106 agreements From our testing we identified that one s106 agreement was included in the working as not having a repayment date, when there was a repayment date included in the agreement.	There was no error in this instance as the s106 balance has been included as a creditor but the working used to prepare the financial statement disclosure should be reviewed to ensure all other s106 agreements are correctly documented in the working, so no errors that would impact on the financial statements are made in the future.	We will review the working paper to ensure that all s106 agreements are correctly documented.
Investment property revaluations The CIPFA code requires investment properties to be valued annually. The Council performs revaluation of investment properties on a three year rolling cycle.	Consideration should be given to the value of investment property assets revalued each year to ensure that there is not a risk of an uncorrected material misstatement especially if the overall balance grows in future years.	We will keep the approach to the revaluation of investment properties under continuous review in light of any growth in the investment property portfolio.
Impairment process The valuer undertook an impairment review which resulted in Car parks being added to the assets being revalued in year.	Formal documentation should be retained to support the impairment review to allow review both internally and as part of the external audit.	Formal documentation will be retained to support future impairment reviews.

Our audit report

The form and content of our report

Here we discuss how the results of the audit impact on our audit report. An overview of our financial statement audit work will be included in our Auditor's Annual Report.



Our opinion on the financial statements

Based on our audit work, we envisage issuing an unmodified audit report.



Emphasis of matter and other matter paragraphs

We are assessing the disclosure required in relation to the material uncertainty on property reported by the valuer.

There are no other matters we judge to be of fundamental importance in the financial statements that we consider it necessary to draw attention to in an emphasis of matter paragraph.

There are no matters relevant to users' understanding of the audit that we consider necessary to communicate in an other matter paragraph



Value for Money reporting by exception

Our opinion will note that our Value for Money work is on-going and will be reported in our Auditor's Annual Report.

We have no matters to date to report by exception in our financial statement audit opinion.



Irregularities and fraud

We will explain the extent to which we considered the audit to be 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 discuss the areas identified where fraud may occur and any identified key audit matters relating to fraud.

Your annual report

We are required to report by exception on any issues identified in respect of the Narrative Report or Annual Governance Statement.

	Requirement	Deloitte response
Narrative Report	<p>The Narrative Report is expected to address (as relevant to the Council):</p> <ul style="list-style-type: none">• Organisational overview and external environment;• Governance;• Operational Model;• Risks and opportunities;• Strategy and resource allocation;• Performance;• Outlook; and• Basis of preparation	<p>We have assessed whether the Narrative Report has been prepared in accordance with CIPFA guidance.</p> <p>We have also read the Narrative Report for consistency with the annual accounts and our knowledge acquired during the course of performing the audit, and is not otherwise misleading.</p>
Annual Governance Statement	<p>The Annual Governance Statement reports that governance arrangements provide assurance, are adequate and are operating effectively.</p>	<p>We have assessed whether the information given in the Annual Governance Statement meets the disclosure requirements set out in CIPFA/SOLACE guidance, is misleading, or is inconsistent with other information from our audit. No issues were noted from our review.</p>

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 help the Audit Committee and the Council discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA (UK) 260 to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Report.
- Our internal control observations.
- Other insights we have identified from our audit.

The scope of our work

Our observations are developed in the context of our audit of the financial statements.

Use of this report

This report has been prepared for the Council, 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.

What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the Audit and Standards Committee.

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

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

Deloitte LLP

Newcastle upon Tyne | 18 April 2023

Appendices



Audit adjustments

Unadjusted misstatements and Disclosures

The following uncorrected misstatements have been identified up to the date of this report which we request that you ask management to correct as required by ISAs (UK). Uncorrected misstatements increase the surplus by £820k, increase net assets by £633k and reserves by £187k.

		Debit/ (credit) income statement £k	Debit/ (credit) in net assets £k	Debit/ (credit) prior year reserves £k	Debit/ (credit) OCI/Equity £k
Misstatements identified in current year					
Understated COMF grant income					
Dr Creditors	[1]		678		
Cr Income	[1]	(678)			
S106 reclassification – extrapolation					
Dr Short term s106 Creditor	[2]		53		
Cr Long term s106 Creditor	[2]		(53)		
S106 overstatement					
Dr Creditors	[3]		65		
Cr Income	[3]	(65)			
Goodwin					
Dr Reserves	[4]			187	
Cr Pension liability	[4]		(110)		
Cr Payroll	[4]	(77)			
Assets held for sale reclassification					
Dr PPE	[5]		527		
Cr AHFS	[5]		(527)		
Total		(820)	633	187	

Audit adjustments

Disclosures deficiencies

[1] Council received a new grant from central government (Contain Outbreak Management Fund) in year as part of the government's response to COVID. Total grant was for £888k, the council incurred £210k of expenditure in relation to purposes of the grant and deferred the remainder of the income (£678k). From our review of the grant documentation as part of our local government covid grant template it was identified that there were no conditions associated with the grant and therefore we would have expected the full amount to be recognised as income in year.

[2] Extrapolated error in relation to a s106 agreement liability that should have been categorised as long term rather than short term.

[3] Per the section 106 agreement there is no deadline for the spend or obligation for the funds to be repaid if not spent.

[4] No allowance for the Goodwin case has been included in the pension balances in the prior year or current year.

[5] Classification of the asset as HFS is incorrect as the sale is required to be 'highly probable' and while the asset is actively marketed a sale is not currently highly probable.

Disclosure misstatements

The following uncorrected disclosure misstatements have been identified up to the date of this report which we request that you ask management to correct as required by ISAs (UK).

Disclosure	Summary of disclosure requirement
Contracts with service recipients	Within the accounts the Council should disclose the analysis of the revenue, debtors and payables that sets out contract assets and contract liabilities from contracts with service recipients.
Narrative report	Disclosures within the narrative report could be improved by including: - Reconciliation of budget figures to CIES in narrative report
Financial instruments	Improvements in the narrative disclosure around credit risk.

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 our objectivity is not compromised.
Fees	Details of proposed fees for audit and non-audit services performed for the period have been presented separately on the following page.
Non-audit services	In our opinion there are no inconsistencies between the FRC's Ethical Standard and the company's policy for the supply of non-audit services or any apparent breach of that policy. 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 advise as necessary.
Relationships	We have no other relationships with the Council, its directors, senior managers and 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 for the period from 1 April 2020 to 31 March 2021 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	-
Total audit	36,729	36,729
Housing Benefits certification	-	10,500
Total assurance services	-	10,500
Total fees	36,729	47,229

[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. For the current year there has been additional work in areas such as infrastructure assets, ISA540, collection fund testing and COVID 19 grant income.

[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.



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