



Annual Audit Letter on the 2018/19 External Audit Fylde Borough Council

March 2020

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1. Letter to Members

The Members
Fylde Borough Council
The Town Hall
St Annes Road West
Lytham St Annes
Lancashire
FY8 1LW

06 March 2020

Dear Sirs

We have pleasure in setting out this Annual Audit Letter to summarise the key matters arising from the work that we have carried out in respect of the audit for the year ended 31 March 2019.

Although this letter is addressed to the Members of Fylde Borough Council ("the Authority"), it is also intended to communicate the significant issues we have identified, in an accessible style, to key external stakeholders, including members of the public. The letter will be published on the Public Sector Audit Appointments Ltd (PSAA) website at www.psaa.co.uk and on the Authority's website.

This letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Ltd. This is available from www.psaa.co.uk.

This letter has been discussed and agreed with the Chief Finance Officer. A copy of the letter will be provided to all Members.

This is our first year as the external auditor of the Authority following the transition of the PSAA contract in 2018/19. We would like to take this opportunity to thank you for your assistance and co-operation during this year's external audit. Our aim is to deliver a high standard of audit, delivering insights identified from our audit work to make a positive and practical contribution, which supports the Authority's own agenda. We recognise the value of your co-operation and support.

Paul Hewitson
Audit Director
for and on behalf of Deloitte LLP
Newcastle Upon Tyne, United Kingdom

2. Key Messages

Statement of Accounts	
<p>Unqualified opinion issued on 31 July 2019</p>	<p>In 2018/19 the Authority was required to prepare its Statement of Accounts in accordance with International Financial Reporting Standards (“IFRS”) as defined in the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and other relevant legislation.</p> <p>The Statement of Accounts was prepared and audited in accordance with the agreed timetable.</p> <p>Through our audit planning we identified three significant risks of material misstatement which we addressed through our audit. These were:</p> <ul style="list-style-type: none"> • completeness and cut off of service line expenditure; • property valuations; and • management override of controls. <p>Materiality for the Authority’s accounts was set at £1.1m.</p> <p>We issued an unqualified audit opinion on the Statement of Accounts on 31 July 2019.</p>
Value for Money (VfM) conclusion	
<p>Unqualified opinion issued on 31 July 2019</p>	<p>We are required to base our statutory VfM conclusion on the criteria specified by the National Audit Office, namely whether the Authority has in place proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.</p> <p>We issued an unqualified opinion in respect of the VfM conclusion on 31 July 2019.</p>
Annual Governance Statement	
<p>All relevant governance matters were adequately and appropriately disclosed</p>	<p>We have reviewed the Authority’s Annual Report & Annual Governance Statement to consider whether it is misleading or inconsistent with other information known to us from our audit work.</p> <p>The Annual Governance Statement complies with the Delivering Good Governance guidance issued by CIPFA/SOLACE.</p> <p>At our suggestion, a number of minor changes were made to the Annual Governance Statement presented for audit.</p>

Whole of Government accounts	
The Authority is below the audit threshold	<p>The Authority prepares a consolidation pack to support the production of Whole of Government Accounts by HM Treasury. We are not required to review this pack as the Authority falls below the threshold where an audit is required.</p> <p>As required we have confirmed this fact to the National Audit Office by the national deadline of 13 September 2019.</p>

Audit findings	
Weaknesses in internal control were identified	<p>During our audit we identified a number of areas for improvement in internal controls and processes which were communicated to management and the Audit and Standards Committee. The findings are outlined below, and full detail of these was presented in our ISA260 letter in July 2019.</p> <p>Property valuations – A material error was identified in relation to the valuation of operational land and buildings. This was corrected in the Statement of Accounts. Various findings relating the Property Valuation process were identified including:</p> <ul style="list-style-type: none"> • Valuations were not always produced fully in line with RICS methodology and in some areas lacked rigorous workings and evidence base to support the valuations; • While valuations were carried out by a RICS qualified in-house valuer, there was a lack of review of these valuations by a second qualified valuer; • For complex assets which are valued under special methodologies, Fylde may benefit from the use of an external valuer; and • Operational land and building assets are valued on a five year rolling program, which is appropriate and typical for local authorities. The Authority is required to review the valuation of assets not subject to formal valuation each year to ensure the historic valuation remains appropriate and there was no formal process whereby this was done. <p>Depreciation and physical verification of fixed assets – At 31 March 2019, the Authority included a material level of fully depreciated assets in its Property, Plant, and Equipment. These are assets held on Fylde’s books, but at nil value. If these assets are still owned and in use, then the depreciation policy may be inappropriate as the assets are brought to nil value in the books more quickly than their actual economical lives. If these assets are not still owned by the Authority, then they should not be shown in the Authority’s books. There is no formal process for physical verification of assets to confirm the assets that the Authority reported in the Statement of Accounts are still owned, in good working order, and in active use.</p> <p>IT environment – Our IT specialists reviewed the IT environment at Fylde and identified various minor observations, covering areas such as IT security, privileged access accounts, data leakage and disaster recovery, and controls around shared IT environments with Blackpool Council. Our</p>

	<p>audit did not rely on the operating effectiveness on the Authority’s internal controls, so these issues did not impact on our planned audit approach or on our ability to issue an unmodified audit opinion.</p> <p>Operational risk management – During 2018/19, there was an absence of formal monitoring of operational risk. Since March 2019, the Authority has introduced a new system for monitoring these risks which is being implemented over 18 months.</p> <p>NNDR appeals provisioning – The NNDR appeals provision represents the risk of successful Business Rates appeals leading to a repayment being made by Fylde to the claimant. The value included in the statement of accounts is largely calculated by a third party organisation. This may be appropriate however the Authority should implement a formal process to review the work and figure calculated by the third party, as the Authority is ultimately responsible for calculating and monitoring the level of potential liability.</p>
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3. Responsibilities and Scope

Responsibilities of the Authority and Auditors

The Authority is responsible for maintaining the control environment and accounting records and preparing the accounting statements in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 based on IFRS and other relevant legislation.

We are appointed as the Authority's independent external auditors by PSAA, the body responsible for appointing auditors to local public bodies in England.

As the Authority's appointed external auditor, we are responsible for planning and carrying out an audit that meets the requirements of the National Audit Office's Code of Audit Practice ("the Code"). Under the Code, we have responsibilities in two main areas:

- the Authority's accounts; and
- whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion).

The scope of our work

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) as adopted by the UK Auditing Practices Board ("APB"). The audit opinion on the accounts reflects the financial reporting framework adopted by the Authority, being the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 based on IFRS and other relevant legislation.

We conducted our work on the value for money conclusion in line with guidance issued by the National Audit Office in November 2017, in respect of local government bodies for the financial year ended 31 March 2019.

4. Audit of the Accounts

Statement of Accounts	
Unmodified opinion on the financial statements issued for the year ended 31 March 2019	<p>We issued an unmodified opinion on the Authority's accounts for the year ended 31 March 2019.</p> <p>Before we give our opinion on the accounts, we are required to report to Those Charged with Governance any significant matters arising from the audit. A detailed report was discussed with the members of the Audit Committee on 30 July 2019.</p>
Materiality	<p>We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.</p> <p>Materiality for the Authority's accounts was set at £1.1m which equated to 2% of gross income. The level of materiality shapes and informs the extent of the audit work we undertook, including review of balances which are below this which exhibit particular characteristics. This assists in the identification of transactions and balances which were likely to give rise to material misstatements, and in determining the extent of work undertaken in respect of the areas we judged to contain such risks.</p> <p>Our Report to Those Charged with Governance, in the case of the Authority, the Audit and Standards Committee, set out the details of any errors identified during the audit which were greater than £53k, our clearly trivial threshold.</p>
Significant Risks	<p>Our audit work was designed to specifically address the following significant audit risks which are presented in further detail below. Significant audit risks are the areas deemed to be those with the greatest potential of being materially incorrect in the financial statements and are therefore areas of greater focus for the audit team.</p> <ul style="list-style-type: none"> • Whether property subject to revaluation in the year had been correctly stated – We obtained an understanding of the key controls in place around the revaluation of the Authority's property and performed detailed testing of the revalued assets including seeking the view of our internal valuation specialists as to whether the methodology employed by the Authority appeared reasonable. We identified several issues in the Authority's processes around property valuations. A material adjustment was made to the accounts to reflect revised valuations for two assets. We made recommendations to the Authority to improve the valuation process going forward, which are outlined on page 5 of this letter. • Whether the Authority's controls had been bypassed by management in the preparation of the financial statements (Management override of controls) – We obtained an understanding of the key controls in place around journal entries and judgements made in the preparation of the financial statements. Using Computer Assisted Auditing Tools we identified a number of journals which exhibited characteristics of audit interest and performed detailed testing on these journals. We also reviewed the key accounting judgements for bias. Our

Statement of Accounts	
	<p>work did not identify any errors requiring correction and we did not raise any recommendations in relation to this area of risk.</p> <ul style="list-style-type: none"> Whether the Statement of Accounts contained all of the expenditure relating to the year ended 31 March 2019 (Completeness and cut off of expenditure) – We obtained an understanding of the controls in place that management rely upon to ensure that year-end transactions are correctly accounted for at year end. We performed analytics to assess the reasonableness of the levels of expenditure to identify any anomalies which may indicate material misstatement. We tested a sample of transactions from April and May 2019 and confirmed whether they had been appropriately included or excluded from the total reported in 2019. From our work we did not identify any errors or issues with management’s judgements in relation to this risk.
Overall Opinion	<p>We issued an unqualified opinion on the Authority’s 2018/19 accounts on 31 July 2019, in accordance with the deadline set for local government bodies. Our opinion confirms that the accounts present a true and fair view of the financial position of the Authority as at 31 March 2019 and its income and expenditure for the year then ended.</p>

Key issues from work performed on the Statement of Accounts	
Misstatements identified	<p>We received a set of draft accounts in line with the agreed deadline, which were supported by working papers. The finance staff were helpful throughout the process.</p> <p>Through our audit we identified errors, including errors in the comparative financial information, which we communicated to the Authority for correction.</p> <p>Following corrections the final Statement of Accounts upon which we issued our opinion contained one remaining error which was immaterial.</p> <p>The error related to the depreciation charge applied to revalued assets. The Authority revalued assets as at 31 March 2019, and therefore the depreciation charge for the year ended 31 March 2019 should be based on the value of the asset before revaluation. The Authority calculated depreciation for the year based on the revalued asset value. This led to surplus on provision of services being understated by £115k, while the revaluation reserve is also understated by £115k.</p>

Annual Governance Statement	
The Statement includes all appropriate disclosures and is consistent with our understanding of the Authority's governance arrangements	<p>As appointed auditors, we review the Annual Governance Statement ("AGS") and comment on any inconsistencies noted between the AGS and our audit work, other work relating to the Code of Audit Practice, and our understanding of the Authority's Governance arrangements.</p> <p>We have concluded that the Statement includes all appropriate disclosures and is consistent with our understanding of the Authority's governance arrangements and internal controls derived from our audit work.</p>
Powers and Duties	
We did not receive any questions about the accounts or make any public interest reports	<p>Under the Local Audit and Accountability Act 2014, auditors have specific powers and duties, including to give electors the opportunity to raise questions about the accounts and to consider and decide upon objections received in relation to the accounts. We did not receive any such questions or objections.</p> <p>We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or if the public should know about.</p> <p>We have not identified any matters that would require us to issue a public interest report.</p>
Whole of Government accounts return	
The Authority is below the audit threshold	<p>The Authority prepares a consolidation pack to support the production of Whole of Government Accounts by HM Treasury. We are not required to review this pack as the Authority falls below the threshold where an audit is required. As required by the guidance we have confirmed this with the National Audit Office by the national deadline of 13 September 2019.</p>
Audit Certificate	
We have issued our certificate	<p>We issued our certificate on 31 July 2019. The certificate confirms that we have concluded the audit for 2018/19 in accordance with the requirements of the Local Audit & Accountability Act 2014 and the Code of Audit Practice.</p>

5. Value for Money

Background and approach

We are required to issue a value for money ("VfM") conclusion within our report on the Authority financial statements. We are required to base our VfM conclusion on criteria specified by the National Audit Office ("NAO") where we are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources. Our assessment is based on the following reporting criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people."

The following sub-criteria are then used to inform and guide our work and inform our overall judgement although there is no requirement to separate these nor to report against each sub-criteria:

- Informed decision making;
- Sustainable resource deployment; and
- Working with partners and other third parties.

We would emphasise that it is the arrangements in place that we are required to assess, and not the actual decisions made by the Authority.

We planned our local programme of work based on our risk assessment, which was informed by a series of risk factors determined by the National Audit Office.

We did not identify any significant risks as part of our risk assessment.

The VfM conclusion

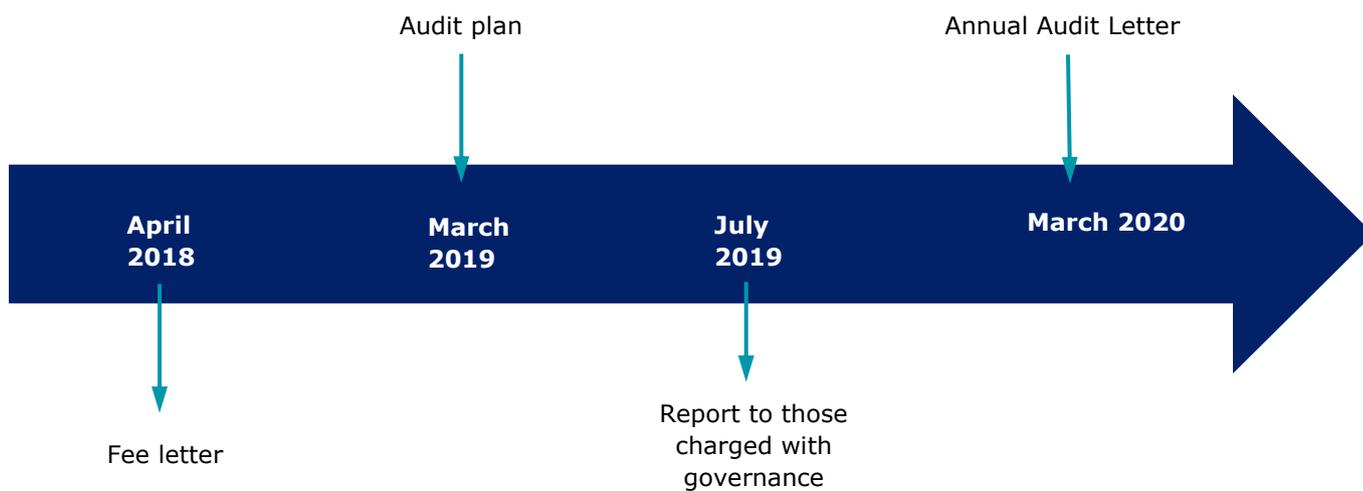
Having performed our work in line with guidance received from the National Audit Office we issued an unqualified value for money conclusion for the 2018/19 financial year.

6. Other Matters

Reports issued

Reports issued during the course of the 2018/19 audit included:

- Audit Fee letter;
- Annual Audit Plan;
- The Report to Those Charged with Governance on the 2018/19 audit of the Authority; and
- This Annual Audit Letter.



Analysis of audit fees

Audit fees charged are as follows:

	2018/19 £
Scale fees for the audit of the Authority's annual accounts, VfM conclusion and whole of government accounts return	36,729
Additional fees for addressing issues relating to Property Valuations during the audit	5,000
Total audit fees	41,729
Fees payable in relation to Housing Benefit Assurance Programme work	10,500
Total fees (excluding VAT)	52,229

As set out in our Report to Those Charged with Governance, the issues encountered during the audit resulted in more audit work being required than was originally planned. Consequently we have agreed an additional fee of £5,000 with the Authority in relation to the 2018/19 audit, which is included in the table above.

Independence and objectivity

In our professional judgement, our policies and safeguards that are in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit partner and audit staff is not impaired.

We confirm that we comply with FRC's Ethical Standards for Auditors and that, in our professional judgement, we and, where applicable, all Deloitte network firms are independent and our objectivity is not compromised.

In our opinion there are no inconsistencies between FRC's Ethical Standards for Auditors and the Authority'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.

We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the Authority, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence.

We are not aware of any relationships which are required to be disclosed.

No matters impacting our independence have arisen during the year.

Statement of Responsibilities

The Statement of Responsibilities of Auditors and Audited Bodies issued by PSAA explains the respective responsibilities of auditors and of the audited body and this report is prepared on the basis of, and our audit work is carried out in accordance with, that statement.

The matters raised in this report are only those that came to our attention during our audit and are not necessarily a comprehensive statement of all weaknesses that exist or of all improvements that might be made. You should assess recommendations for improvements for their full implications before they are implemented. In particular, we would emphasise that we are not responsible for the adequacy and appropriateness of the national data and methodology supporting our value for money conclusion as they are derived solely from the National Audit Office.

This report has been prepared for the Members, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other party.

An audit does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the Annual Audit Letter since first published. These matters are the responsibility of the Authority but no control procedures can provide absolute assurance in this area.



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