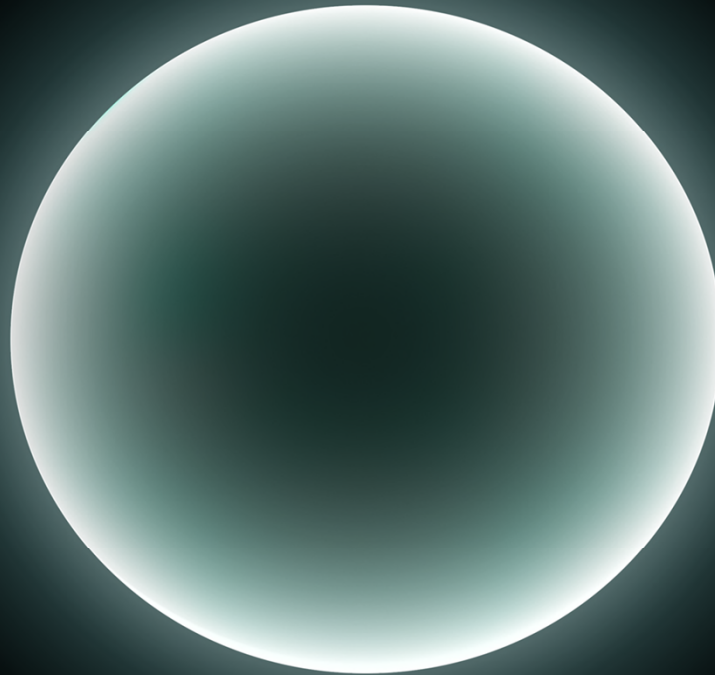


Deloitte.



Fylde Borough Council

Auditor's Annual Report 2020/21

Issued on 17 July 2023

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Purpose of this report

Our Auditor's Annual Report sets out the key findings arising from the work we have carried out at Fylde Borough Council ("the Council") for the year ended 31 March 2021.

This report is intended to bring together the results of our work over the year at the Council, including commentary on the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources ("Value for Money", "VfM"). This report fulfils the requirements of the Accounts and Audit Regulations for an Annual Audit Letter.

In preparing this report, we have followed the National Audit Office's ("NAO") Code of Audit Practice and its Auditor Guidance Note ("AGN") 03, Value for Money, and AGN 07, Auditor Reporting. These are available from the NAO website.

A key element of this report is our commentary on the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources ("Value for Money", "VfM"). Our work considering these arrangements is based on our assessment of the adequacy of the arrangements the Council has put in place, based on our risk assessment. The commentary does not consider the adequacy of every arrangement the Council has in place, nor does it provide positive assurance that the Council is delivering or represents value for money.

Where we identify recommendations, we indicate whether these are:

- Recommendations in respect of significant weaknesses in the Council's VfM arrangements, which we are required to make in accordance with paragraph 54 of AGN 03 where we identify a significant weakness, or
- Other recommendations, which we have indicated as "Deloitte Insights".

We have not identified any significant weaknesses in the Council's VfM arrangements, and so have not reported any recommendations in respect of significant weaknesses.

Key Messages

Audit opinion on the financial statements

We issued an unqualified opinion on the Council's financial statements on 27 April 2023.

The Council's arrangements to secure Value for Money

Financial Sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services

- The Council had a total of £23.4m in usable reserves at the year end, which evidences strong historic financial planning and provides the Council with flexibility in terms of its approach to transformation.
 - The Council monitors budgets on a monthly basis and reports the financial position on a regular basis to Committee which includes an analysis of the actual expenditure incurred compared to budget by service area.
-

Governance

How the body ensures that it makes informed decisions and properly manages its risks

- The Council has a number of policies in place to ensure it makes properly informed decisions. The Council Constitution is regularly reviewed and provides detail as to the rules and procedures under which the Council operates. It sets out how decisions are made and the rights of citizens to obtain information and influence decisions.
 - The Council has a detailed risk management process in place and performed an assessment of the risks of COVID-19 during the year. The Council maintains a Risk Management Strategy and risk register, which are reviewed by the Strategic Risk Management Group quarterly and report to the Audit and Standards committee every 6 months.
 - The Council utilises an internal audit function which undertakes a risk based programme of internal audit work in accordance with the Accounts and Audit Regulations 2015 and the Public Sector Internal Audit Standards. The work undertaken was more limited in the current year due to capacity issues which has meant that the Council has now appointed MIAA as their internal auditors.
-

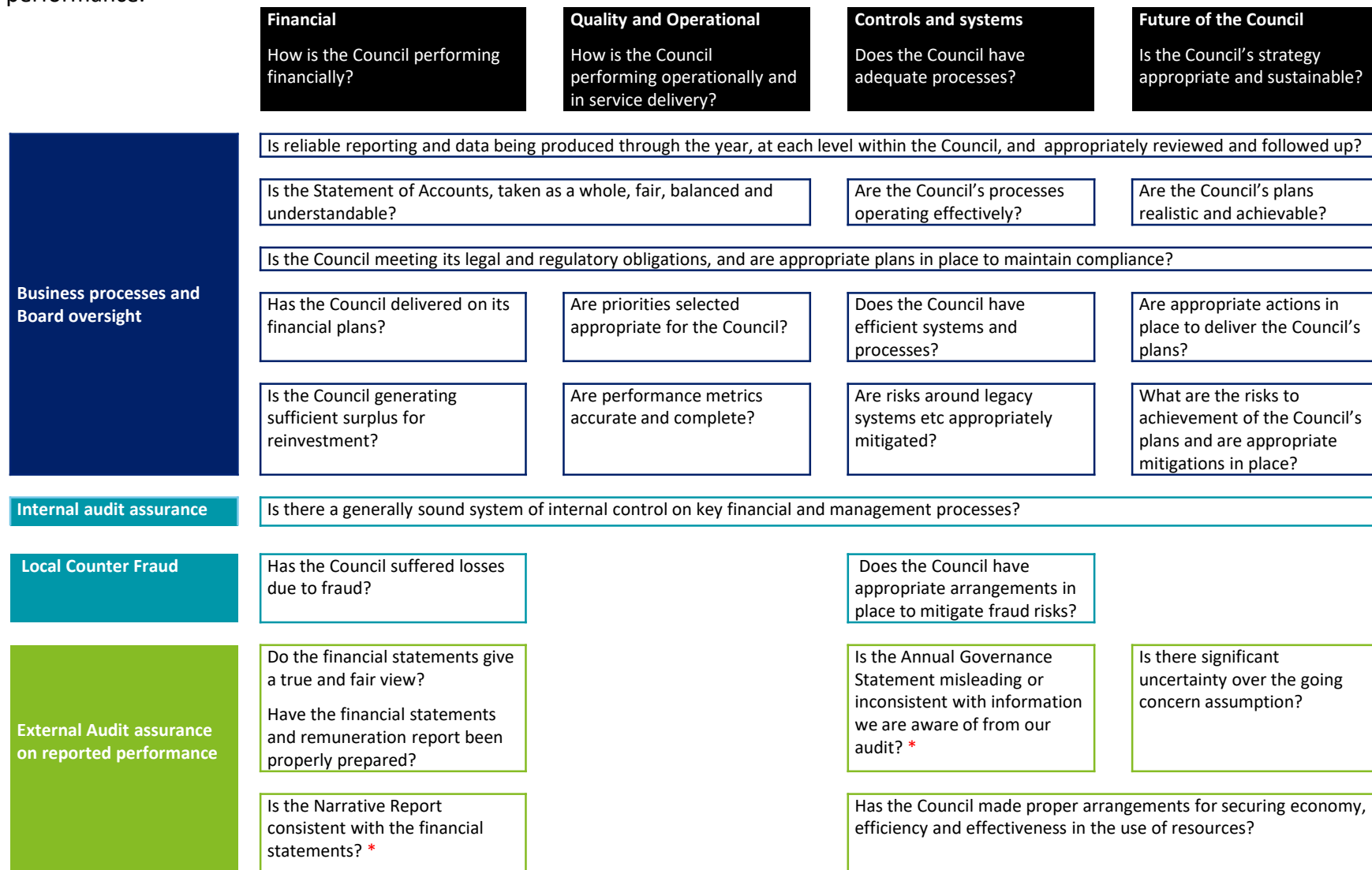
Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services

- The Council assesses its performance regularly through meetings with the senior officers. The financial and performance information produced is used at all levels of the Council to identify areas for improvement, addressing any poor performance and using information on good performance to continuously improve.
-

Assurance sources for the Council

The diagram below illustrates how the assurances provided by external audit around finance, quality, controls and systems and the future of the Council (in the green rows) and how this fits with some of the other assurances available over the Council's position and performance.



Opinion on the financial statements

We provide an independent opinion whether the Council's financial statements:

- Give a true and fair view of the financial position of the Council at 31 March 2021 and of its income and expenditure for the year then ended;
- Have been properly prepared in accordance with the accounting policies set out in the International Financial Reporting Standards ("IFRS") as defined in the Code of Practice on Local Authority Accounting in the United Kingdom in 2020/21.

The full opinion is included in the Council's Statement of Accounts, which can be obtained from the Council's website.

We conduct our audit in accordance with the NAO's Code of Audit Practice, International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. We are independent of the Council in accordance with applicable ethical requirements, including the Financial Reporting Council's Ethical Standard.

Audit opinion on the financial statements: We issued an unqualified opinion on the Council's financial statements on 27 April 2023. We did not identify any matters where, in our opinion, proper practices had not been observed in the compilation of the financial statements.

Narrative Report: We reported that the information given in the Narrative Report for the year ended 31 March 2021 is consistent with the financial statements.

Annual Governance Statement: We did not identify any matters where, in our opinion, the Annual Governance Statement did not meet the disclosure requirements set out in the code of practice on Local Authority Accounting, was misleading, or was inconsistent with information of which we are aware from our audit.

Reports in the public interest and use of other powers: We did not exercise any of our additional reporting powers in respect of the year ended 31 March 2021.

Reporting to the group auditor: Due to the delays in completing the audit of the financial statements we did not meet the NAO's deadlines for reporting for Whole of Government accounts. We have confirmed that Fylde was below the auditing threshold.

Audit Certificate We cannot certify completion of the audit until we have had confirmation from the NAO of any responsibilities in respect of the Whole of Government accounts for the year ended 31 March 2021.

Our financial statement audit approach

An overview of the scope of the audit

Our audit was scoped by obtaining an understanding of the Council and the environment it operates in, including internal control, and assessing the risks of material misstatement to the financial statements. Our risk assessment procedures include considering the size, composition and qualitative factors relating to account balances, classes of transactions and disclosures. This enables us to determine the scope of further audit procedures to address identified risks of material misstatement.

Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team, led by the audit associate partner, Paul Hewitson. The audit team included integrated Deloitte specialists bringing specific skills and experience in property valuations and pension liabilities.

Materiality

Our work is planned and performed to detect material misstatements. 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.

Based on our professional judgement, we determined materiality for the Council to be £867k, on the basis of 2% of revenue.

We agreed with the Audit and Standards Committee that we would report to the Committee all audit differences in excess of £43k as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit and Standards Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

Procedures for auditing the Council's financial statements

Our audit of the Council's financial statements included:

- developing an understanding of the Council, including its systems, processes, risks, challenges and opportunities and then using this understanding to focus audit procedures on areas where we consider there to be a higher risk of misstatement in the Council's financial statements;
 - interviewing members of the Council's management team and reviewing documentation to test the design and implementation of the Council's internal controls in certain key areas relevant to the financial statements; and
 - performing sample tests on balances in the Council's financial statements to supporting documentary evidence, as well as other analytical procedures, to test the validity, accuracy and completeness of those balances.
 - data analytic techniques which were used as part of audit testing, in particular for journal testing.
-

Approach to audit risks

We focused our work on areas where we considered there to be a higher risk of misstatement. We refer to these areas as significant audit risks.

We provided a detailed audit plan to the Council's Audit and Standards Committee setting out what we considered to be the significant audit risks for the Council, together with our planned approach to addressing those risks. We have provided a summary of each of the significant audit risks on the next page.

We have made recommendations in our Audit and Standards Committee reporting for improvement in the Council's policies, procedures and internal controls based on observations from our work. However, we do not consider these recommendations to reflect significant weaknesses in the Council's VfM arrangements.

Financial statement audit significant risks

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.</p> <p>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.</p> <p>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>
Deloitte response and challenge	<ul style="list-style-type: none">• We tested the design and implementation of controls around 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.
Conclusion	<p>We have not identified any issues from our work in relation to the key judgements made by management.</p>

Financial statement audit significant 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.

Although management is responsible for safeguarding the assets of the Council, we planned our audit so that we had a reasonable expectation of detecting material misstatements to the Statement of Accounts.

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.
-

Financial statement audit significant risks (continued)

Management override of controls (continued)

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.

Conclusion

We did not identify any issues in relation to management override.

We have raised one recommendation in relation to the journals control process. From our work on the design and implementation of the controls in place around the posting of journals, it was noted that some journals are only reviewed and approved retrospectively rather than prior to posting. We therefore recommended that controls in place around the journal process are tightened to ensure that all journals should be reviewed and approved by an appropriately senior member of staff prior to be posted in the system.

Auditor's work on Value for Money (VfM) arrangements

The Chief Executive and Council are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money.

The Chief Executive reports on the Council's arrangements, and the effectiveness with which the arrangements are operating as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Under the National Audit Office's Auditor Guidance Note 3, we are required to assess arrangements under three areas:

Financial Sustainability	<i>How the body plans and manages its resources to ensure it can continue to deliver its services</i>
Governance	<i>How the body ensures that it makes informed decisions and properly manages its risks</i>
Improving economy, efficiency and effectiveness	<i>How the body uses information about its costs and performance to improve the way it manages and delivers its services</i>

In this report, we set out the findings from the work we have undertaken. Where we have found significant weaknesses in arrangements, we are required to make recommendations so that the Council can consider them and set out how it plans to make improvements. We have not identified any significant weaknesses in arrangements.

In planning and performing our work, we consider the arrangements that we expect bodies to have in place, and potential indicators of risks of significant weaknesses in those arrangements. As a result of the Covid-19 pandemic, there have been changes in nationally led processes, changes in expectations around Council's arrangements, and events occurring outside of the Council's control, which affect the relevance of some of these indicators. We have still considered whether these indicators are present, but have considered them in the context of the circumstances of 2020/21 in assessing whether they are indicative of a risk of significant weakness.

In addition to our financial statement audit, we performed a range of procedures to inform our VfM commentary, including:



Interviews with key stakeholders, including Paul O'Donoghue (Chief Financial Officer), Paul Harrison (Deputy Chief Financial Officer), Sandra Cudlip and Fiona Hill (Internal Audit).



Review of Council and Finance and Democracy committee reports and attendance at Audit and Standards meetings.



Reviewing reports from third parties including internal audit.



Considering the findings from our audit work on the financial statements.



Review of the Council's annual governance statement and narrative report.

VfM arrangements: Financial Sustainability

Approach and considerations

We have considered how the Council plans and manages its resources to ensure it can continue to deliver its services, including:

- How the Council ensures it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them;
- How the Council plans to bridge its funding gaps and identifies achievable savings;
- How the Council plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;
- How the Council ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning; and
- How the Council identifies and manages risks to financial resilience, including challenge of the assumptions underlying its plans.

Commentary

The Council has performed well in 2020/21 and generated a surplus on the provision of services of £1,929k although this is a fall from the surplus in the prior year of £10,000k. However, this has mainly been driven by a fall in the level of capital grants recognised as the construction of the sea wall defences project has been completed during the year. After deducting the balance of capital grants recognised in the year the outturn for the current year is a surplus of £1,037k compared to £2,943k in the prior year. This indicates that the Council has maintained a stable position over the past 2 years, however there are increased pressures going forward as noted in the forecasts below.

The Council has a detailed annual financial planning and forecasting process, with the Medium Term Financial Strategy (MTFS) which features a range of factors including the Council's strategic planning, proposed savings and growth opportunities, the capital programme and key areas of financial risk. The MTFS is developed alongside the preparation of the annual budget. For the budget setting process, budget holders review the roll forward budget to identify one off costs and non-recurrent costs. Budget holders prepare business cases for revenue expenditure growth, which are then challenged as part of the different levels of the approval process.

The MTFS also includes longer term considerations with the latest version covering the period 2020/21 to 2024/25, within this the Council has forecast surpluses of £1,813k in 2020/21 and £1,706k in 2021/22 before moving to small deficit positions, £398k, £880k and £871k respectively for the following three years. Over the length of the MTFS the Council is in a net surplus position.

The Council have considered a range of factors in preparing the MTFS which cover the main areas we would expect including the impact of Covid-19, uncertainty around future central government funding as well as a continued focus on the delivery of quality services.

The Council also prepares a Corporate plan which sets out the key priorities across the Council's key themes of Economy, Environment, Efficiency and Tourism. As well as the specific actions that are intended to be undertaken to achieve the priorities. These actions and activities are linked into the detailed budget and MTFS for example the sea defences capital works, the Boundary Commission review and Fairhaven Lake project flow through into the MTFS.

VfM arrangements: Financial Sustainability (continued)

Commentary

The Council continues to be in a strong balance sheet position with a cash and cash equivalents balance at the end of 2020/21 of £8.6m, which is a decrease in comparison with the PY balance of £11.4m. However, to offset this the Council's short term investments have increased from £12.1m to £16.0m. This balance equates to 170% of the total current liabilities, this is an indicator that the Council has the capability to repay its liabilities as they fall due. In addition the Council has no external borrowing and had not forecast a need for borrowing in 2021/22, therefore it has flexibility and isn't expected to be adversely affected by the recent increase in interest rates.

The Council has net assets of £36.5m and net current assets of £16.4m. We note that in the current year a material uncertainty paragraph has been included within the PPE note based on the independent valuers report including a 'material valuation uncertainty' due to the impact of Covid -19 on the real estate market.

Furthermore the Council has a total of £23.4m in usable reserves at the year end, which evidences strong historic financial planning and provides the Council with flexibility in terms of its approach to transformation.

Based on the above, we are satisfied the Council has sufficient arrangements to provide financial sustainability in place for the size and activities of the Council.

VfM arrangements: Governance

Approach and considerations

We have considered how the Council ensures that it makes informed decisions and properly manages its risks, including:

- How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud;
- How the body approaches and carries out its annual budget setting process;
- How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed;
- How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency; and
- How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer behaviour.

Commentary

The Council has a detailed risk management process in place, which includes a Risk Management strategy and risk register. The council has adopted the Grace (Governance, Risk Assessment and Control Evaluation) system to enable the completion of risk registers at all levels, including the strategic risk register, service/operational risk registers, projects, key procurement, partnerships and processes. Strategic risks are identified through discussions with the Chief Executive, Directors, Heads of Service and Chairman / Vice Chairman of the Audit & Standards Committee. These risks are then presented to the Strategic Risk Management Group at the Strategic Risk workshop to determine the impact and likelihood and assign each risk an overall score and consider against the Risk Matrix. As we would expect, due to the impact of the COVID-19 pandemic on the Council's services and processes, the main changes in the year have been the inclusion of risks and mitigating actions for the pandemic's impact on specific activities. The mitigations appear to have had the intended affect as for 2021/22 the new risks are now focused on the recovery plans. The Strategic Risk Management Group monitors progress on the implementation of the agreed action plans throughout the year to ensure that all actions are completed and provides updates to the Audit and Standards Committee every 6 months.

The Audit & Standards Committee reviews the adequacy of the risk management arrangements and has oversight of the Council's system of internal control, including arrangements to prevent and detect fraud. The Council has a series of policies covering internal controls, including an anti fraud, bribery and corruption policy. These policies are readily available for all staff to review on the Council's website. The Audit Committee approves the annual Internal Audit Plan, and receives updates at Committee meetings through the year.

The Council uses an internal audit function to provide independent, objective assurance, designed to add value to and improve operations. During the year there was a lack of capacity within the in house internal audit team and the need for external support was identified and part way through the year MIAA took over the internal audit role. However, the timing of the change meant that there was insufficient time for a full programme of internal audit work on all material risks and areas of operation to be undertaken and therefore the programme was focused on key areas.

VfM arrangements: Governance (continued)

Commentary

In relation to the areas of work that were completed the Head of Internal Audit opinion (HOIAO) for the year was of 'Moderate Assurance' as there is an adequate system of internal control, however, in some areas weaknesses in design and/or inconsistent application of controls puts the achievement of some of the organisation's objectives at risk. But the opinion excluded a number of areas that had not been covered, specifically main accounting, housing benefits, council tax and business rates, third party assurance from external providers and key financial systems as there is insufficient assurance available for the HOIAO to offer reasonable assurance. This issue has been addressed in 2021/22 with all excluded areas undergoing a specific review with all areas receiving at least 'Moderate assurance', the HOIAO for 2021/22 was also 'Moderate Assurance' but as a full audit programme was able to be undertaken there were no excluded areas.

Once the budget has been approved, following the process set out in the previous section, the Council has embedded periodic budget monitoring processes in place for Revenue and Capital and this is reported to members through programme committees every 4 months. The reports include narrative descriptions of the most significant variances from the profiled latest budget and details any actions required to address these. Any other actions/changes are included and reflected from either specific committee reports and updated MTFs forecasts as part of the budget monitoring process and the annual budget setting process.

The Council has a number of policies in place to ensure it makes properly informed decisions. It receives regular reporting on a wide range of areas to help ensure that decisions are based on the appropriate information, this includes reports and recommendations from Working Groups and updates from the Councillors who are Chairmen of Council Committees. The reports provided are required to summarise any previous decisions, and document the implications identified in relation to a range of factors covering finance, legal, community safety, human rights and equalities, sustainability and environmental impact, health and safety and risk management. Committee Chairmen, and Shadow Opposition Leads, are also offered briefings prior to formal Programme Committees to provide the opportunity for clarification and challenge prior to decisions being taken.

To ensure that appropriate standards are followed the Council has a number of policies in place including member and officer codes of conduct. Member behaviour is overseen by the Audit and Standards Committee with periodic reporting giving an overview of the nature of complaints received and their origin. The Council includes the detail of how it will respond to complaints from constituents on the website, including contact details for the Monitoring Officer who under the Council constitution is responsible for the process. The Monitoring Officer is also responsible for maintaining the register of members' interests and advising the Council to complying with laws and relevant guidance in its decision making and is able to attend any relevant committees.

Any serious transgressions are investigated within an agreed framework and considered by the Audit and Standards Committee. A Complaints Handling Procedure governs how matters regarding allegations of elected member misconduct are dealt with.

Based on the above, we are satisfied the Council has sufficient governance arrangements in place for the size and activities of the Council.

VfM arrangements: Improving economy, efficiency and effectiveness

Approach and considerations

We have considered how the body uses information about its costs and performance to improve the way it manages and delivers its services, including:

- How financial and performance information has been used to assess performance to identify areas for improvement;
- How the Council evaluates the services it provides to assess performance and identify areas for improvement;
- How the Council ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve; and
- Where the Council commissions or procures services, how the Council ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the Council assesses whether it is realising the expected benefits.

Commentary

In a normal year performance by exception reports are produced for programme committees on a six monthly basis. The reports cover both financial and non financial key performance indicators and provides commentary on those indicators that are either notably above or below the targets set. Due to the operational demands of responding to Covid-19 there was a pause in this reporting regime during 2020/21. However, this has been reintroduced in 2021/22 with the reporting also included the relevant information that would have been reported in relation to 2020/21. The areas that were highlighted as having a performance below target were generally connected with the impacts of COVID i.e. staff sickness and levels of long term sickness. While there has subsequently been an improvement in these areas they are still below target.

To evaluate the services that the Council is providing it produces service plans. There are three service plans that cover all services and highlight the areas of responsibility for the service, a SWOT analysis, a corporate improvement plan that sets out the main actions that will implemented to improve the service and detailed performance measures. This includes the performance in the previous two years and the targeted level of performance, which allows for an assessment of the trend in performance.

However due to the impacts of the pandemic for 2020/21 these plans were carried over from the prior year and instead the focus was on the COVID recovery plan and road map. These documents set out the Council's overall aims in helping residents and businesses recover as well as a more detailed resource plan with specific actions and the required resources.

Elected members sit on a number of outside bodies. These appointments are made annually each year and approved by Council. The Council is actively involved in range of ways with a number of local partnerships, from senior councillors representing the Council on committees or providing administrative and strategic support. Members provide regular reports on the activities of the bodies on which they sit back to the programme committee to which the external partnership relates.

VfM arrangements: Improving economy, efficiency and effectiveness (continued)

Commentary

Procurement at the council is governed by the Contract Procedure Rules, which form part of the Council's constitution, this clearly set out the thresholds and requirements for different levels of procurement. The rules are supplemented by the procurement strategy and the 'Guide to Buying for the Council', which together provides buying officers with the relevant information on requirements, policies and procedures.

Where specified exceptional circumstances require a departure from the procurement process which would otherwise be required to be followed, the rules require that the circumstances be reported to the appropriate committee.

Based on the above, we are satisfied the Council has sufficient arrangements to improve economy, efficiency and effectiveness in place for the size and activities of the Council.

Purpose of our report and responsibility statement

What we report

Our report fulfils our obligations under the Code of Audit Practice to issue an Auditor's Annual Report that brings together all of our work over the year, including our commentary on arrangements to secure value for money, and recommendations in respect of identified significant weaknesses in the Council's arrangements.

What we don't report

Our audit was not designed to identify all matters that may be relevant to the Council.

Also, there will be further information the Council and the Audit and Standards Committee needs to discharge their 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 work under the Code of Audit Practice in respect of Value for Money arrangements.

The scope of our work

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

We described the scope of our work in our audit plan.

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.

Deloitte LLP

Newcastle upon Tyne | 17 July 2023

Appendix 1: Council's responsibilities

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement.

The Chief Executive, as Head of Paid Service, and the Chief Financial Officer, as s151 Officer, are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

They are required to comply with the CIPFA code of practice and prepare the financial statements on a going concern basis, unless the Council is informed of the intention for dissolution without transfer of services or function to another entity. In applying the going concern basis of accounting, they have applied the 'continuing provision of services' approach set out in the CIPFA code of practice as it is anticipated that the services the Council provides will continue into the future.

They are required to confirm that the statement of accounts, taken as a whole, is fair, balanced, and understandable, and provides the information necessary for patients, regulators and stakeholders to assess the Council's performance, business model and strategy.

They are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in the use of the Council's resources, for ensuring that the use of public funds complies with the relevant legislation, delegated authorities and guidance, for safeguarding the assets of the Council, and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The officers and the Council are responsible for ensuring proper stewardship and governance, and reviewing regularly the adequacy and effectiveness of these arrangements.

Appendix 2: Auditor's responsibilities

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Auditor's responsibilities relating to the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required under the Code of Audit Practice and the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We undertake our work in accordance with the Code of Audit Practice, having regard to the guidance, published by the Comptroller & Auditor General in April 2021, as to whether the Council has proper arrangements for securing economy, efficiency and effectiveness in the use of resources against the specified criteria of financial sustainability, governance, and improving economy, efficiency and effectiveness.

The Comptroller & Auditor General has determined that under the Code of Audit Practice, we discharge this responsibility by reporting by exception if we have reported to the Council a significant weakness in arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021. Other findings from our work, including our commentary on the Council's arrangements, are reported in our Auditor's Annual Report.

Auditor's other responsibilities

We are also required to report to you if we exercise any of our additional reporting powers under the Local Audit and Accountability Act 2014 to:

- make a written recommendation to the Council, copied to the Secretary of State;
- make a referral to the Secretary of State if we believe that the Council or an officer of the Council is:
 - about to make, or has made, a decision which involves or would involve the Council incurring unlawful expenditure; or
 - about to take, or has begun to take a course of action which, if pursued to its conclusion, would be unlawful and likely to cause a loss or deficiency; and
- consider whether to issue a report in the public interest.



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