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

Issued on 10 October 2023 for the Audit Committee on 19 October 2023

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Introduction

The key messages in this report:

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

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

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

Audit Plan

We have updated our understanding of the Council informed by discussions with management and review of relevant documentation from across the Council.

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

Key Risks

We have taken an initial view as to the significant audit risks the Council faces. These are presented as a summary dashboard on page 12. The significant risks identified for 2021/22 are the same as those for 2020/21, except for the risk of fraud in revenue recognition which is now an area of audit focus. We have lowered the risk in the current year as no issues were identified in the prior year with the accounting for revenue including grants with terms and conditions and Covid-19 grants.

Our risk assessment has been informed by our knowledge from the audit of the 2020/21 financial statements.

During the prior year audit we identified a number of misstatements in the financial statements. We have not deemed the quality of the financial statements to be a significant risk. However, we would expect a detailed review of the Statement of Accounts to be undertaken by senior members of the finance team before the Statement of Accounts are presented for audit.

Value for Money

Our VfM planning procedures are ongoing. However, based on our work completed so far, specific areas that we expect to focus on include the Council's longer term planning for financial sustainability and the actions taken by the Council in relation to the Ofsted inspection report in November 2018 which included an "inadequate" rating in relation to children's services.

Our Commitment to Quality

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

Nicola Wright
Audit Partner

Responsibilities of the Audit Committee

Helping you fulfil your responsibilities

Why do we interact with the Audit 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.

To communicate audit scope

To provide timely and relevant observations

To provide additional information to help you fulfil your broader responsibilities

Oversight of external audit

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

Integrity of reporting

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

Internal controls and risks

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

Oversight of internal audit

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

Whistle-blowing and fraud

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

Our audit explained

We tailor our audit to your business and your strategy

Identify changes in your business and environment

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

Scoping

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

More detail is given on page 6.

In our final report

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

Quality and Independence

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

Determine materiality

We have determined materiality for the Group and Council only of £12.2m (2020/21 £11.2m) and £11.3m (2020/21 £10.5m) respectively. This is based on 2% of gross expenditure per the 2021/22 draft financial statements. We have set performance materiality for the Group and Council of £7.3m (2020/21 £7.3m) and £6.7m (2020/21 £6.8m) respectively. We have reduced performance materiality due to the number of errors identified in 2020/21. We will report to you any misstatements above £0.5m (2020/21 £0.5m). We will also report to you any misstatements below this threshold if we consider them to be material by nature.

Significant risk assessment

The significant risks identified for 2021/22 are the same as those for 2020/21, except for the risk of fraud in revenue recognition which is now an area of audit focus. We have lowered the risk in the current year as no issues were identified in the prior year with the accounting for revenue including grants with terms and conditions and the new Covid-19 grants. More details on the significant risks for the current year are given on pages 13 to 15.

Scope of work and approach

Our approach

Financial statements

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

We report on whether the financial statements:

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

Annual Governance Statement

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

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

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

Value for Money conclusion

We are required to consider the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources. If we identify any significant weaknesses, we are required to make recommendations, and to provide a narrative commentary on arrangements.

To perform this work, we are required to:

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

Liaison with Internal Audit

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

We have reviewed the Internal Audit reports and the Head of Internal Audit Opinion for 2021/22 which rated the overall control environment as ‘adequate’. We met with the team to discuss their work and we have discussed the work plan for Internal Audit. Where they have identified specific material deficiencies in the control environment, we will consider adjusting our testing so that the audit risk is covered by our work.

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

Continuous communication and reporting

Planned timing of the audit

As the audit plan is executed throughout the year, the results will be analysed continuously and conclusions (preliminary and otherwise) will be drawn. The following sets out the expected timing of our reporting to and communication with you. The ability to meet this timeline is based on the receipt of a fully reviewed draft statement of accounts that are of appropriate quality.

Planning	**Year end fieldwork**	**Reporting activities**
Planning meetings to inform risk assessment; and agree on key judgemental accounting issues. Update understanding of key and changes to financial reporting. Review of key Council documents including Executive, Council and Audit Committee minutes.	Document design and implementation of key controls and update understanding of key business cycles. Scoping of components for the Group audit. Substantive testing of all areas. Update and finalisation of work in support of value for money responsibilities. Detailed review of annual accounts and report, including Annual Governance Statement. Review of final internal audit reports and opinion. Completion of testing on significant audit risks.	Year-end closing meetings. Issue final Audit Committee paper. Reporting of significant control deficiencies. Signing audit reports in respect of Financial Statements. Whole of Government Accounts reporting. Issuing Auditor’s Annual Report.
2021/22 Audit Plan	Verbal update to the Audit Committee	Final report to the Audit Committee
October 2023	**October - December 2023**	**March 2024**

Ongoing communication and feedback

Materiality

Our approach to materiality

Basis of our materiality benchmark

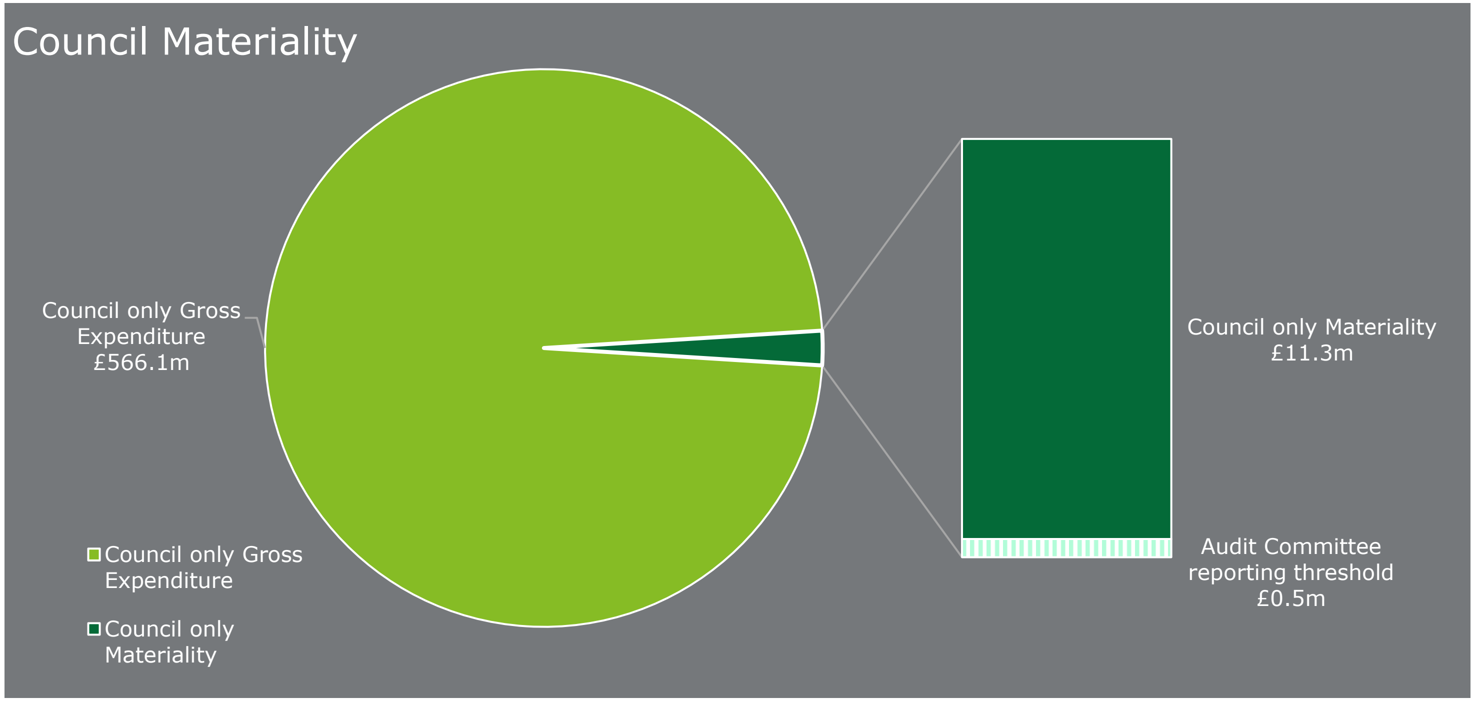
- We have determined materiality for the Group and Council only of £12.2m (2020/21 £11.2m) and £11.3m (2020/21 £10.5m) respectively, based on professional judgement, the requirements of auditing standards and the financial measures most relevant to users of the financial statements.
- We have used 2% of gross expenditure based on the draft 2021/22 accounts as the benchmark for determining our preliminary materiality.

Reporting to those charged with governance

- We will report to you all misstatements found in excess of £0.5m (2020/21 £0.5m).
- We will report to you misstatements below this threshold if we consider them to be material by nature.

Reporting on Group Accounts

- Based on our assessment of the draft year end position we have identified that we will need to undertake detailed testing on the subsidiary balances which are material to the Group financial statements.



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

Covid-19 impact on annual report and financial statements

Impact on property, plant and equipment	The Royal Institute of Chartered Surveyors issued a practice alert in March 2020, as a result of which valuers identified a material valuation uncertainty at 31 March 2020 for most types of property valuation, resulting in disclosure in financial statements and “emphasis of matter” paragraphs in audit reports. By September 2020, RICS considered that there was no longer material uncertainty over valuations from that date, and therefore valuations at 31 March 2022 are not expected to be affected by material valuation uncertainties. We have confirmed that there are no valuations that have been reported with a material valuation uncertainty at the 31 March 2022. The Council needs to consider its approach to the measurement of property, plant and equipment (PPE). Where property held at current value is based on market valuations the Council should consider with their valuers the impact that Covid-19 has had on current value. The Council will also need to consider whether there are any indications of impairment of assets requiring adjustment at 31 March 2022.
Valuation of commercial or investment properties	Following the Covid-19 pandemic, the fair value measurements for financial instruments and investment properties held by the Council needs to be reviewed against the conditions and assumptions at the measurement date. Although at 31 March 2022, volatility was lower than during the early stages of the pandemic, we are aware of significant movements in 2021/22 and would therefore expect these to be taken into consideration.
Impact on pension fund investment measurement	As a result of the Covid-19 pandemic, pension fund investments have been subject to volatility. It is important to engage with custodians and fund managers to not only gather information for year-end measurements but to also understand any estimation techniques and any changes to those techniques that may be needed to measure the financial instruments. Where such volatility exists it may mean that the inputs used in the fair value measurement may change and may require a change of measurement technique, and consideration of the level of uncertainty in valuations where there is significantly more estimation. There was a triennial valuation as at the 31 March 2022 which resulted in updated year end membership data being available. As a result of this the Council have been required to obtain an updated IAS19 report to reflect the updated membership information.
Expected credit losses	Although the impact of the pandemic reduced in 2021/22, there has been a significant downturn in economic activity, with many businesses and individuals significantly impacted. The Council will need to consider the provision for credit losses for receivables, including for expected credit losses for assets accounted for under IFRS 9.
Recoverability of long term debtors	The Council has provided loans to a number of its subsidiaries and also, under the Business Loan Fund, to private companies. Due to the impact of Covid-19 on a wide range of companies within the economy, there is an increased risk over the recoverability of these loans. The Council will need to perform a detailed assessment of the recoverability of the outstanding loans.

Covid-19 impact on annual report and financial statements (continued)

Financial risk disclosures	The Council needs to report on the impact of financial pressures and its financial sustainability in the Narrative Report and the relevant liquidity reporting requirements under the Code's adoption of IFRS 7 Financial Instruments: Disclosures.
Narrative and other reporting issues	The following areas will need to be considered by local authorities as having being impacted on by the Covid-19 pandemic. • Narrative reporting as well as the usual reporting requirements will need to cover the effects of the pandemic on services, operations, performance, strategic direction, resources and financial sustainability. • Reporting judgements and estimation uncertainty, the Council will need to report the impact on material transactions including decisions made on the measurements of assets and liabilities
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. The nature of the Covid-19 pandemic will mean that the Council will need to continue to review and update these assessments up to the date the accounts are authorised for issue.

Significant risks

Our risk assessment process

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

- the significant risks and uncertainties previously reported in the Narrative Report and financial statements;
- the IAS 1 critical accounting estimates previously reported in the Narrative Report and financial statements;
- our assessment of materiality; and
- the changes that have occurred in the business and the environment it operates in since the last Narrative Report and financial statements.

Deloitte view

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

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

Principal risk and uncertainties

- Resource management
- Information governance
- Ability to secure commercial opportunities
- Underachievement of savings
- Health & Safety

Changes in your business and environment

- Impacts of Covid-19
- Continued overspends in Children & Young People's Services
- Overspend in Health and Adult Services
- Increasing income generation from more commercial activities

IAS 1 Critical accounting estimates

- Future funding levels
- Property valuations
- Recognition of schools' fixed assets
- Pension liabilities
- Valuation of investment properties
- Recognition of PFI assets

NAO – Auditor Guidance Note 06

The National Audit Office identified Dedicated Schools Grant – negative reserve and pension guarantees to other entities as key issues in their Local Government Audit Planning guidance issued in November 2022.

We reviewed the approach being taken by the Council in response to these in the prior year audit and will refresh our understanding for the current year.

We do not believe any of these matters represent a significant audit risk but we will carefully review the approach being taken by the Council to address these issues.

Significant risks

Significant risk dashboard

Risk	Material	Fraud risk	Planned approach to controls	Level of management judgement/ estimate	Slide no.
Completeness of Accrued Expenditure	✓	✓	D+I	Moderate	13
Management Override of Controls	✓	✓	D+I	Moderate	14
Property Valuations	✓	✗	D+I	Moderate	15

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

- Low level of management judgement/ estimate
- Moderate level of management judgement/ estimate
- High level of management judgement/ estimate

Significant risks

Risk 1 – Completeness of Accrued Expenditure

Risk identified	Under ISA 240, there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. In the current year, we have identified the risk as relating specifically to year end accruals. There is an inherent fraud risk associated with the under recording of expenditure in order for the Council to report a more favourable year-end position. For Blackpool Council, there is therefore an inherent risk that it may materially misstate its expenditure through the understatement of accruals in an attempt to report a more favourable year end position.
Our response	Our work in this area will include the following: • Assessing the design and implementation of the key controls in place in relation to the recording of accruals; • Testing a sample of accruals to supporting documentation to check whether they are valid liabilities, that the amount accrued is appropriately supported, and that the liability was incurred as at 31 March 2022; and • Testing a sample of post year end payments made in April and May 2022, per the Council's bank statements, in order to ensure that the associated expenditure has been included in the correct period.

Significant risks

Risk 2 – Management Override of Controls

Risk identified	In accordance with ISA 240 (UK), management override of controls is a significant risk due to fraud for all entities. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Council's controls for specific transactions. The key judgements in the financial statements include those which we have selected to be the significant audit risks, (completeness of accrued expenditure and the Council’s property valuations) and any one-off and unusual transactions where management could show bias. These are inherently the areas in which management has the potential to use their judgment to influence the financial statements.
Our response	In considering the risk of management override, we plan to perform the following audit procedures that directly address this risk: • We will consider the overall control environment and ‘tone at the top’; • We will test the design and implementation of controls relating to journals and accounting estimates; • We will make 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 will test the appropriateness of journals and adjustments made in the preparation of the financial statements. We will use Spotlight data analytics tools to select journals for testing, based upon identification of items of potential audit interest; • We will review accounting estimates for biases that could result in material misstatements due to fraud and perform testing on key accounting estimates as discussed above; and • We will obtain an understanding of the business rationale of significant transactions that we become aware of that are outside of the normal course of business for the entity, or that otherwise appear to be unusual, given our understanding of the entity and its environment.

Significant risks

Risk 3 – Property Valuations

Risk identified	The value of land and buildings and investment properties represent significant balances in the Council's financial statements and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgements in respect of key assumptions and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. The Council has adopted a rolling revaluation model which sees all land and buildings revalued over a four year cycle. As a result of this, however, individual assets may not be revalued for three years and any changes to the factors used in the valuation process could materially affect the value of the Council's assets as at year end. There is therefore a risk that the value of property assets materially differ from the year end fair value, particularly given that valuations are inherently judgemental and include a number of assumptions. We have associated the significant risk to assets that are valued on a market basis as there is greater risk of movement in the valuations and an increased level of judgement required. As a result of the Covid-19 pandemic there has been significant market movements during the year which will impact on the valuations of the investment properties held by the Council. This increases the level of judgment required in valuing the assets.
Our response	Our work in this area will include the following: • We will review the design and implementation of the controls in place in relation to property valuations; • We will consider the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work; • We will engage our valuation specialists, Deloitte Real Asset Advisory, to review and challenge the appropriateness of the assumptions used in the valuation of the Council's property assets; • We will sample test key asset information used by the Council's valuers in performing their valuation, such as gross internal areas, back to supporting documentation; • We will review assets not subject to valuation in 2021/22 and challenge if its reasonable that there is no material movement or need to revalue the assets; • We will consider the impact of Covid-19 on the valuation of property assets and ensure, where necessary, the Council has reflected the impact in their valuations; and • We will review the presentation of revaluation movements, and the disclosures included in the Statement of Accounts.

Other areas of audit focus

Other accounting judgments and areas of focus which have not currently been identified as significant audit risks are as follows

Risk identified	Our response
Pension liability valuation The net pension liability is a material element of the Council's balance sheet. The valuation of the Scheme relies on a number of assumptions, including actuarial assumptions, and actuarial methodology which results in the Council's overall valuation. Furthermore there are financial and demographic assumptions used in the calculation of the Council's valuation – e.g. the discount rate, inflation rates, mortality rates. These assumptions should also reflect the profile of the Council's employees, and should be based on appropriate data. There is a risk that the assumptions and methodology used in the valuation of the Council's pension obligation are not reasonable. This could have a material impact to the net pension liability accounted for in the financial statements. There was a triennial valuation as at the 31 March 2022 which resulted in updated year end membership data being available. As a result of this the Council have been required to obtain an updated IAS19 report to reflect the updated membership information.	Our work in this area will include the following: • Agreeing the actuarial report for the Council produced by Mercers, the scheme actuary, to the Statement of Accounts pension disclosures; • Reviewing the disclosures made in the Statement of Accounts against the requirements of the Code; • We will liaise with the audit team of Lancashire County Pension Fund to obtain assurances over the information supplied to the actuary in relation to the Council; • Assessing the independence and expertise of the actuary supporting the basis of reliance upon their work; • Using our internal actuarial specialists to review and challenge the assumptions made by Mercers; and • Assessing the reasonableness of the Council's share of the total assets of the scheme by reference to the Pension Fund financial statements.
Long term debtor recoverability At 31 March 2022, the Council had provided loans totalling £86m to a number of its subsidiaries and private companies. Due to the impact of Covid-19 on a wide range of companies within the economy, we believe there is a risk that some of these entities may not be able to repay the loans provided by the Council, and as a result the value of the loans at 31 March 2022, may need to be impaired.	Our work in this area will include the following: • We will obtain and review management's assessment of the recoverability of the loans. • We will obtain loan agreements from the Council for a sample of loans. We will review the terms and conditions included in the agreements, with a particular focus on any collateral that is included in the agreements and where appropriate we will involve our internal hospitality and leisure specialists to review the collateral to understand the potential recoverability; and • We will review and assess the current operational status of each company in our sample, including reviewing the latest set of audited financial statements for the company, in order to identify any potential risks to the recoverability of the loan provided by the Council.

Other areas of audit focus

Other accounting judgments and areas of focus which have not currently been identified as significant audit risks are as follows

Risk identified	Our response
Recognition of grants with terms and conditions Under ISA 240, there is a presumed risk that revenue may be misstated due to improper revenue recognition. We have rebutted this as a significant risk and instead concluded this as an area of audit focus. We have lowered the risk in the current year as no issues were identified in the prior year with the accounting for revenue including grants with terms and conditions and the new Covid-19 grants. Our judgement is that the risk at the Council relates to the recognition of grants with terms and conditions attached, including the grants received in year relating to Covid-19 where terms and conditions may be less clear. There is a risk that the Council will recognise the income before the terms and conditions have been met. There are also a number of grants relating to Covid-19, such as the business rates relief, where management need to determine if they are acting in the capacity of an Agent or Principal.	Our work in this area will include the following: • Reviewing management’s assessment of the accounting treatment of each significant grant claim, with a particular emphasis on Covid-19 related grants, including consideration of the treatment of agent or principal, and challenged the appropriateness of the approach adopted; and • Testing a sample of grants with terms and conditions attached, including the new Covid-19 related grants, to ensure that where management judgements have been made relating to the recognition of the income, all terms and conditions have been achieved.

Value for Money

Areas of focus

We are required to consider the Trust’s arrangements for securing economy, efficiency and effectiveness in the use of resources. In accordance with Code of Audit Practice 2020 and related Auditor Guidance Note 03, we are required to:

- Perform work to understand the Trust’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 VfM arrangements, which might include emerging risks or issues.
- Where significant weaknesses are identified, report this by exception within our financial statement audit opinion.

AGN03 requires auditors to set out the results of their risk assessment as part of the audit planning report. Specific areas that we expect to focus on in understanding the Council’s arrangements include the Council’s longer term planning for financial sustainability and the 2018 Ofsted findings in relation to children’s services.

Value for Money

Areas of focus (continued)

Risk identified	Our response
Ofsted findings In November and December 2018, Ofsted conducted an inspection of children's social care services. Following this inspection, the Children's Services were given an overall rating in the report (January 2019) of 'Inadequate'.	Our work in this area will involve: • Review of any subsequent correspondence with Ofsted; • Consideration of the findings and conclusions made in the Ofsted report, including review of the Council's progress to date in delivering actions to address the findings; and • Review of management progress in developing an action plan and the arrangements put in place by the Council to deliver improvement
Financial Sustainability The Council, like most of the local government sector, faces significant challenges over the short and medium term due to the ongoing cuts in funding and increased demand for services. Covid-19 presents a significant financial challenge for the Council in 2021/22 and beyond. We are aware of a number of s114 notices having been issued by other authorities. Within the Local Government Finance Act 1988, Section 114 (3) dictates that: "The chief finance officer of a relevant authority shall make a report under this section if it appears to him that the expenditure of the authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure".	Our work in this area will involve: • Obtaining an understanding of the Council's Medium Term Financial Plan, budget for 2022/23 and transformation programmes; • Discussions with the Director of Resources, and senior operational staff; • Review of the Council's draft Narrative Report, Annual Governance Statement and Council papers and minutes; • Consideration of issues identified in our financial statements audit work; • Consideration of the Council's financial results, including delivery of savings, and the Council's plan; • Review of any reports from regulators issued in the year; and • Consider the arrangements the Council has in place and if there is any risk of a s114 notice being required.

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

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

What we don't report

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

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

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

Use of this report

This report has been prepared for the Audit Committee on behalf of 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. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

Other relevant communications

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

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

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

Deloitte LLP

Deloitte LLP

Newcastle upon Tyne | 10 October 2023

Appendices

Audit adjustments

Prior year unadjusted misstatements

The following uncorrected misstatements were raised as part of the prior year audit. These uncorrected misstatements decreased the surplus by £3.2 million, decreased net assets by £4.2 million and decreased OCI by £1 million.

		Debit/ (credit) Comprehensive Income and Expenditure Statement £m	Debit/ (credit) OCI £m	Debit/(credit) Net Assets £m	Debit/ (credit) General Fund £m	Debit/ (credit) Unusable Reserves £m
Misstatements identified in current year						
Assets not depreciated in first year of use	[1]	1.0	-	(1.0)	-	-
Valuation of Council owned car parks	[2]	3.6	-	(3.6)	-	-
Valuation of Houndshill Shopping Centre	[3]	(1.4)	-	1.4	-	-
Impact of Goodwin pension ruling	[4]	-	1.0	(1.0)	-	-
Total		**3.2**	**1.0**	**(4.2)**	**-**	**-**

[1] Judgemental misstatement due to the Council not depreciating assets in the first year of acquisition.
[2] Errors identified in the valuations of car parks.
[3] Error due to the draft valuation for Houndshill Shopping Centre used in the production of the financial statements.
[4] Judgemental misstatement in relation to the impact of the Goodwin ruling on the pension liability.

Audit adjustments
Prior year disclosures

Disclosure misstatements

The following uncorrected disclosure misstatements were identified as part of the prior year audit.

Disclosure	Finding
Note 14. Property, Plant and Equipment – Houndshill Shopping Centre depreciation	Our testing identified that the Houndshill Shopping Centre was not depreciated in 2020/21. The depreciation charge for the year should have been £0.8m. However, as the Shopping Centre has been fully revalued at the year end, there is no impact on the CIES of not including this depreciation charge, as this charge would be written out of the CIES at 31 March 2021. As a result, we have included this a disclosure only finding as the charge should be reflected in note 14.
Note 19. Financial Instruments	As part of our accruals testing, we identified that the Council had accrued for several invoices that were received pre year end. We would normally expect these to be included in trade creditors at the year end rather than being accrued for. Accruals have been correctly excluded by the Council from note 19, as they do not meet the definition of a financial instrument. However, as the Council has actually received the invoices for these accruals, we believe they should not have been excluded. As we have only tested a sample we have calculated an expected error, which totals £1m. Therefore based on this calculation we would expect the creditors value in note 19 to increase by £1m.

Our other responsibilities explained

Fraud responsibilities

We will make the following inquiries regarding fraud and non-compliance with laws and regulations:

Management and other personnel:

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

Internal audit

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

Those charged with governance

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

Our other responsibilities explained

Fraud responsibilities

Your Responsibilities:

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

Our responsibilities:

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

Fraud Characteristics:

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

Independence and fees

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

Independence confirmation	We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Council and will reconfirm our independence and objectivity to the Audit Committee for the year ending 31 March 2022 in our final report to the Audit Committee.
Fees	There are no non-audit fees for 2021/22 outside of those noted in the table on the following page.
Non-audit services	We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise 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 in the period from 1 April 2021 to 31 March 2022 are as follows:

	Current year £	Prior year £
Financial statement audit including Whole of Government	84,818	84,818
Additional fee for prior year audit [1]*	-	TBC
Additional fee for changes in the current year [2]*	TBC	-
Total audit	**84,818**	**TBC**
Audit related assurance services – Teachers pension return	TBC	4,000
Audit related assurance services – Pooling of Housing Capital Receipts	TBC	5,000
Total assurance services	**TBC**	**9,000**
Total fees	**TBC**	**TBC**

[1] During the 2020/21 audit we have been required to complete additional procedures that are not taken into account in the scale fee of £84,818 above. Following the completion of the audit we will discuss the fee implications with the Director of Resources and present our fee proposal back to the Audit Committee.

[2] Fee for additional audit work to be agreed once the audit has been concluded. We expect there to be additional procedures for areas such as Covid-19 grant work, value for money work and any other one-off transactions. The fee is also based on receipt of audit information on a timely basis and the draft accounts being of good quality.

* All additional fees are subject to agreement with PSAA.

Our approach to quality

FRC 2022/23 Audit Quality Inspection and Supervision report

Audit quality is at the heart of everything we do. We are committed to acting with the highest levels of integrity in the public interest to deliver confidence and trust in business.

In July 2023, the Financial Reporting Council ("FRC") issued individual reports on each of the seven largest firms, including Deloitte on Audit Quality Inspection and Supervision, providing a summary of the findings of its Audit Quality Review ("AQR") team for the 2022/23 cycle of reviews.

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

In that context, our inspection results for our audits selected by the FRC as part of the 2022/23 inspection cycle remain consistent year-on-year, with 82% of all inspections in the cycle assessed as good or needing limited improvement. This reflects the ongoing investment we continue to make in audit quality, with a relentless focus on continuous improvement. Our audit culture and the audit quality environment we create are critical to our resilience and reputation as a business and we remain committed to our role in protecting the public interest and creating pride in our profession.

We value the observations raised by both the FRC AQR and Supervision teams, both in identifying areas for improvement and also the increasing focus on sharing good practice to drive further and continuous improvement.

We are pleased to see the positive impact of actions taken over the last 12-18 months to address findings raised by the FRC in the prior year relating to EQCR, Independence & Ethics and Group Audits, with none of these areas identified as key findings in this year's engagement inspection cycle. The reduction in findings in this area reflects the ongoing effectiveness of the actions taken, particularly the successful rollout of our group audit coaching programme. Our EQCR transformation programme, which commenced in the second half of 2021, has served to further enhance the effectiveness of our EQCR process and led to improved evidence on our audit files demonstrating the EQCR challenge.

We welcome the breadth and depth of good practice points raised by the FRC, particularly in respect of effective group oversight and effective procedures for impairments, where we have made sustained efforts and investment to drive consistency and high-quality execution.

All the AQR public reports are available on the FRC's website:

[Audit Firm Specific Reports - Tier 1 audit firms | Financial Reporting Council (frc.org.uk)]

Our approach to quality

FRC 2022/23 Audit Quality Inspection and Supervision report

The AQR's 2022/23 Audit Quality Inspection and Supervision Report on Deloitte LLP

"In the 2021/22 public report, we concluded that the firm had continued to show improvement in relation to its audit execution and firm-wide procedures.

82% of audits inspected were found to require no more than limited improvements. None of the audits we inspected this year were found to require significant improvements and 82% required no more than limited improvements, the same as last year. This was the case for 78% of FTSE 350 audits (91% last year). The firm has maintained its focus on audit quality on individual audits, with consistent FRC inspection results.

The areas of the audit that contributed most to the audits assessed as requiring improvements were revenue and margin recognition, and provisions. There continues to be findings related to the audit of provisions, which was a key finding last year, although in different areas of provisioning. At the same time, we identified a range of good practice in these and other areas."

Inspection results: review of the firm's quality control procedures

"This year, our firm-wide work focused primarily on evaluating the firm's: actions to implement the FRC's Revised Ethical Standard; partner and staff matters; acceptance, continuance, and resignation procedures; and audit methodology relating to settlement and clearing processes.

Our key findings related to compliance with the FRC's Revised Ethical Standard, timely continuance procedures, and audit methodology relating to settlement and clearing processes.

We identified good practice points in the areas of compliance with the FRC's Revised Ethical Standard, partner and staff matters, and acceptance, continuance and resignation procedures."

Value for Money deadline extension

Letter to the Audit Committee highlighting Value for Money deadline extension

Dear Audit Committee

The National Audit Office issued guidance to auditors on 16 April 2021 setting out a revised timetable for completion of work on arrangements to secure value for money. This revised timetable reflected the impact of the ongoing pandemic on preparers and auditors of accounts. That guidance, established that the Auditor's Annual Report should be published within three months of the signing of the Audit Opinion. Therefore we have not yet issued our Auditor's Annual Report. Under the 2020 Code of Audit Practice, we are required to provide this letter setting out the reasons for the Auditor's Annual Report not being issued by 30 November 2022.

Yours faithfully

Nicola Wright
Audit Partner