



# External Audit Plan 2015/16

Blackpool Council

January 2016

## Financial Statement Audit



There are no significant changes to the Code of Practice on Local Authority Accounting in 2015/16, which provides stability in terms of the accounting standards the Authority need to comply with.

### Materiality

Materiality for planning purposes has been based on a forecast of this year's gross expenditure and set at **£3.5 million**.

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance and this has been set at **£175,000**.

### Significant risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error have been identified as:

- Management override of controls;
- Fraudulent revenue recognition; and
- The Minimum Revenue Provision.

### Other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding have been identified as:

- |                                            |                                    |
|--------------------------------------------|------------------------------------|
| ■ Cash;                                    | ■ Payroll;                         |
| ■ Accounts payable;                        | ■ Net pension liability;           |
| ■ Council Tax income                       | ■ Business rate income;            |
| ■ HRA rental income;                       | ■ Housing Benefit expenditure; and |
| ■ HRA repairs and maintenance expenditure. |                                    |

**See pages 3 to 6 for more details.**

## Value for Money Arrangements work



The National Audit Office has issued new guidance for the VFM audit which applies from the 2015/16 audit year. The approach is broadly similar in concept to the previous VFM audit regime, but there are some notable changes:

- There is a new overall criterion on which the auditor's VFM conclusion is based; and
- This overall criterion is supported by three new sub-criteria.

Our risk assessment is ongoing and we will report on the significant VFM risks identified in our interim audit report.

**See pages 7 to 9 for more details.**

## Logistics



Our team is:

- Tim Cutler – Partner
- Iain Leviston – Manager
- Reena Ghelani – Assistant manager

More details are on **page 12**.

Our work will be completed in four phases from December to September and our key deliverables are this Audit Plan and a Report to those charged with Governance as outlined on **page 11**.

Our fee for the audit is £110,153 (£146,870 2014/15) see **page 10**

## Background and Statutory responsibilities

This document supplements our Audit Fee Letter 2015/16 presented to you in April 2015, which also sets out details of our appointment by Public Sector Audit Appointments Ltd (PSAA).

Our statutory responsibilities and powers are set out in the Local Audit and Accountability Act 2014 and the National Audit Office's Code of Audit Practice.

Our audit has two key objectives, requiring us to audit/review and report on your:

- *Financial statements (including the Annual Governance Statement):* Providing an opinion on your accounts; and
- *Use of resources:* Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary.

## Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

## Financial Statements Audit

Our financial statements audit work follows a four stage audit process which is identified below. Appendix 1 provides more detail on the activities that this includes. This report concentrates on the Financial Statements Audit Planning stage of the Financial Statements Audit.



## Value for Money Arrangements Work

Our Value for Money (VFM) Arrangements Work follows a five stage process which is identified below. Page 7 provides more detail on the activities that this includes. This report concentrates on explaining the VFM approach for 2015/16.



## Financial Statements Audit Planning

Our planning work takes place during December to February 2015. This involves the following key aspects:

- Risk assessment;
- Determining our materiality level; and
- Issuing this audit plan to communicate our audit strategy.

### Risk assessment

Professional standards require us to consider two standard risks for all organisations. We are not elaborating on these standard risks in this plan but consider them as a matter of course in our audit and will include any findings arising from our work in our ISA 260 Report.

- **Management override of controls** – Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.
- **Fraudulent revenue recognition** – We do not consider this to be a significant risk for local authorities as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

The diagram opposite identifies, significant risks and other areas of audit focus, which we expand on overleaf. The diagram also identifies a range of other areas considered by our audit approach.



- Key:
- Significant risk
  - Other area of audit focus
  - Example other areas considered by our approach



## Significant Audit Risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error.

### Minimum Revenue Provision

- The Authority includes a Minimum Revenue Provision (MRP) within its accounts to allow the cost of capital assets financed by borrowing to be recognised in the revenue account. Government Regulations require a MRP to be included in the accounts, but only provide guidance on how authorities may calculate the provision. Changing the basis for calculating the MRP is becoming increasingly common but any change must ensure that the provision remains 'prudent'. The significant nature of the change means that there is a risk that a material misstatement could occur.
- The Authority needs to clearly document its proposed approach, and obtain independent legal advice as to the legality of this approach. We will work closely with the Director of Resources and Head of Finance to review their proposed approach, ensure that it is appropriate to the specific circumstances of the Authority and use our experience of working with other authorities to ensure that changes are compliant with the Regulations.

## Other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding.

### Cash

- Cash is an area that, due to its nature, will always be an area of special audit focus.
- We will verify the bank and loan balances held by the Authority to ensure that these are supported by third party confirmations. We will also test the bank reconciliation controls to ensure that any unexpected variances between the Authority's accounting records and bank statements during the year are identified promptly and addressed appropriately.

### Accounts payable

- The Authority incurs significant costs processed through the accounts payable system. The failure of this system to record expenditure accurately or in a timely manner could have a material impact on the accounts.
- We will use a suite of data analytical procedures to identify those transactions that are potentially higher risk, and use this to focus our audit work on ensuring that expenditure is both accurately recorded and appropriate.

### Payroll

- The size of the Authority's payroll costs require this to be an area of audit focus, despite the routine nature of many of the transactions.
- We will compare the payroll costs recognised in the general ledger to our expectations, based on our knowledge of the Authority, to ensure that the overall payroll costs are reasonable. Specific elements of the remuneration report will be agreed back to payroll records.

### Net pension liability

- The net pension liability is a material balance calculated using significant judgements made by the scheme actuary and approved by the Authority.
- We will review the IAS 19 disclosures provided by the scheme actuaries to ensure they have been correctly incorporated into the accounts. The assumptions used to calculate the net liability will be compared to KPMG benchmarks to ensure they are reasonable. We will verify that the payroll data sent to the scheme is correct, and seek assurance from the scheme's auditors that this has been processed appropriately to calculate the net liability.



## Other areas of audit focus (continued)

### Council Tax income

- Council Tax is, like business rates, a material income source for the Authority. Despite the routine nature of many of the transactions, this scale means that system errors could cause a material misstatement to the accounts.
- The Council Tax system will be reviewed and the key controls documented and tested, to ensure that the system is robust.  
Actual income will be compared to an expectation based on changes in the Band D amount and property numbers by band.  
Precepts will be agreed to demand letters.  
Debtors, creditors and income will be sample tested.

### Business rates income

- Business rate income is a material income source for the Authority. As the NDR return is no longer externally certified, we need to undertake additional procedures over this balance.
- We will derive our own expectation of business rate income based on changes in multipliers and Valuation Office data, and understand any significant variances from that reported by the Authority.  
We will reconcile the balances to central government notifications and the business rates system.

### HRA rental income

- Although the housing stock is managed on the authority's behalf by Blackpool Coastal Housing, the Authority still receives the rental income through the HRA.
- An expectation of rental income will be set based on the number of properties, changes in rent levels and other variables such as voids, and significant differences from that reported in the accounts investigated.  
Arrears balances will be agreed from the rent system to the balance sheet, and a sample of balances tested for accuracy.  
Impairment of arrears balances will be reviewed for reasonableness.

### Housing benefits expenditure

- The size of the housing benefit payments made by the Authority require us to undertake additional work over this balance.
- We will reconcile the underlying benefit data to the draft subsidy form certified by KPMG on behalf of the Authority.  
We will compare expenditure to our own expectations derived from our knowledge of the Authority and changes at other local authorities.  
Year-end cut-off will also be tested.

### HRA repairs and maintenance expenditure

- The repairs balance is another material balance in the HRA. Despite the routine nature of many of the transactions, this scale means that system errors could cause a material misstatement to the accounts.
- The make-up of the repairs expenditure, i.e. payroll, accounts payable and other expenditure, will be identified, and testing combined with other areas where appropriate.  
Additional substantive testing will be undertaken on those elements not included elsewhere.



## Materiality

We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. This therefore involves an assessment of the qualitative and quantitative nature of omissions and misstatements.

Generally, we would not consider differences in opinion in respect of areas of judgement to represent 'misstatements' unless the application of that judgement results in a financial amount falling outside of a range which we consider to be acceptable.

Materiality for planning purposes has been set at £3.5 million for the Authority's standalone accounts. This equates to approximately 1 percent of gross expenditure.

We design our procedures to detect errors in specific accounts at a lower level of precision.

## Reporting to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260(UK&I) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK&I) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £175,000.

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

## Group audit

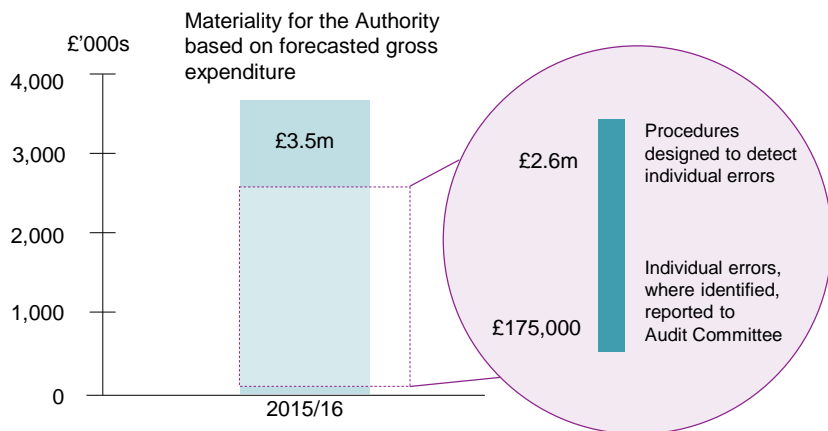
In addition to the Authority we deem the following subsidiaries to be significant in the context of the group audit:

- Blackpool Transport Services;
- Blackpool Operating Company; and
- Blackpool Entertainment Company.

To support our audit work on the Authority's group accounts, we seek to place reliance on the work of the firms who are the auditors to these subsidiaries. We will liaise with them in order to confirm that their programme of work is adequate for our purposes and they satisfy professional requirements.

We will report the following matters in our Report to those charged with Governance:

- Any deficiencies in the system of internal controls or instances of fraud which the subsidiary auditors identify;
- Any limitations on the group audit, for example, where the our access to information may have been restricted; and
- Any instances where our evaluation of the work the subsidiary auditors gives rise to concern about the quality of that auditor's work.



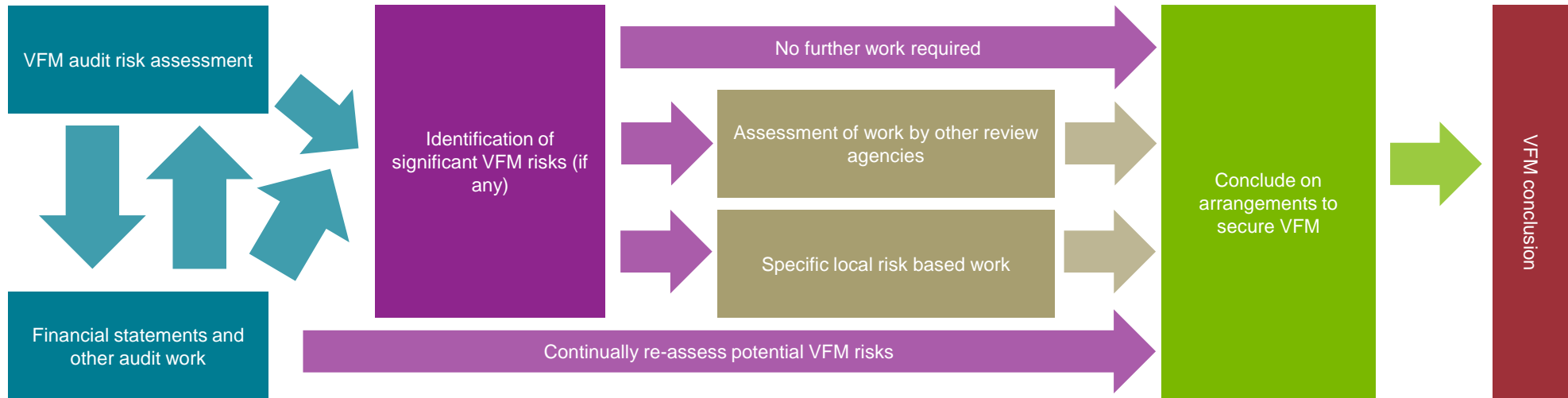
## Background to approach to VFM work

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

The VFM approach is fundamentally unchanged from that adopted in 2014/15 and the process is shown in the diagram below. However, the previous two specified reporting criteria (financial resilience and economy, efficiency and effectiveness) have been replaced with a single criteria supported by three sub-criteria. These sub-criteria provide a focus to our VFM work at the Authority. The diagram to the right shows the details of this criteria.

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







VFM audit stage	Audit approach
<b>VFM audit risk assessment</b>	<p>We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Authority. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the <i>Code of Audit Practice</i>.</p> <p>In doing so we consider:</p> <ul style="list-style-type: none"> <li>■ The Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks;</li> <li>■ Information from the Public Sector Auditor Appointments Limited VFM profile tool;</li> <li>■ Evidence gained from previous audit work, including the response to that work; and</li> <li>■ The work of other inspectorates and review agencies.</li> </ul>
<b>Linkages with financial statements and other audit work</b>	<p>There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities.</p> <p>We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.</p>
<b>Identification of significant risks</b>	<p>The Code identifies a matter as significant '<i>if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.</i>'</p> <p>If we identify significant VFM risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case, including:</p> <ul style="list-style-type: none"> <li>■ Considering the results of work by the Authority, inspectorates and other review agencies; and</li> <li>■ Carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.</li> </ul>



VFM audit stage	Audit approach
<p>Assessment of work by other review agencies</p> <p>and</p> <p>Delivery of local risk based work</p>	<p>Depending on the nature of the significant VFM risk identified, we may be able to draw on the work of other inspectorates, review agencies and other relevant bodies to provide us with the necessary evidence to reach our conclusion on the risk.</p> <p>If such evidence is not available, we will instead need to consider what additional work we will be required to undertake to satisfy ourselves that we have reasonable evidence to support the conclusion that we will draw. Such work may include:</p> <ul style="list-style-type: none"> <li>■ Meeting with senior managers across the Authority;</li> <li>■ Review of minutes and internal reports;</li> <li>■ Examination of financial models for reasonableness, using our own experience and benchmarking data from within and without the sector.</li> </ul>
<p>Concluding on VFM arrangements</p>	<p>At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources.</p> <p>If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.</p>
<p>Reporting</p>	<p>We still need to complete our initial VFM risk assessment and as such have yet to identify any significant VFM risks. We will report on the significant VFM risks identified, if any, in our interim audit report.</p> <p>The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.</p>

### Whole of government accounts (WGA)

We are required to review your WGA consolidation and undertake the work specified under the approach that is agreed with HM Treasury and the National Audit Office. Deadlines for production of the pack and the specified approach for 2015/16 have not yet been confirmed.

### Elector challenge

The Local Audit and Accountability Act 2014 gives electors certain rights. These are:

- The right to inspect the accounts;
- The right to ask the auditor questions about the accounts; and
- The right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised.

The costs incurred in responding to specific questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the PSAA's fee scales.

### Our audit team

Our audit team will be led by Tim Cutler, who leads our Local Government Audit Practice nationally. Tim replaces Trevor Rees who has now retired, and will provide a fresh perspective to the audit of the Authority. Iain Leviston and Reena Ghelani remain as manager and assistant manager respectively, providing the continuity that is important to the smooth running of the audit. Appendix 2 provides more details on specific roles and contact details of the team.

### Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the finance team and the Audit Committee. Our communication outputs are included in Appendix 1.

### Independence and Objectivity

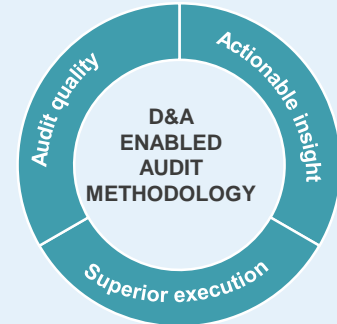
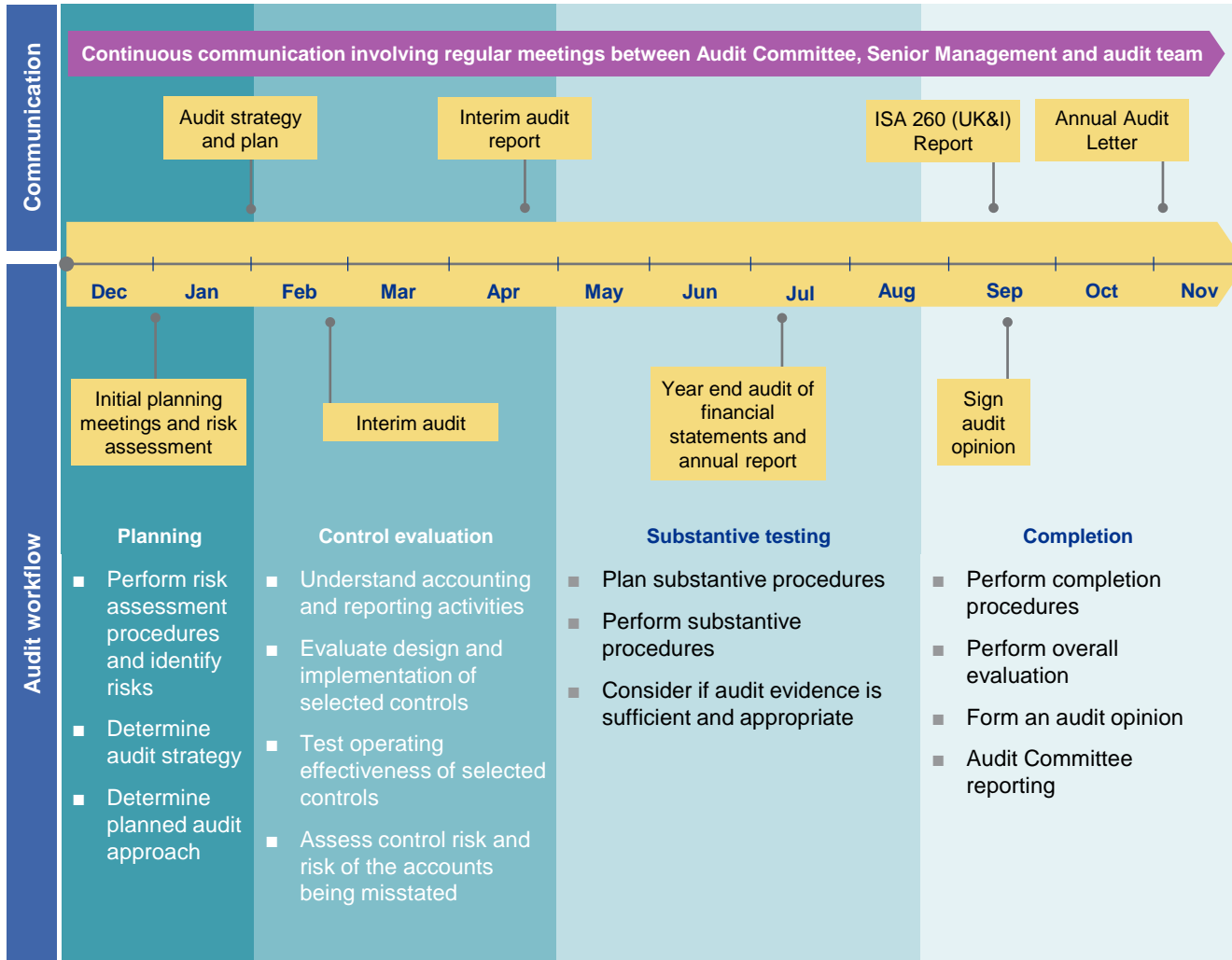
Auditors are also required to be independent and objective. Appendix 3 provides more details of our confirmation of independence and objectivity.

### Audit fee

*Our Audit Fee Letter 2015/16* presented to you in April 2015 first set out our fees for the 2015/16 audit. This letter also sets out our assumptions. We have not considered it necessary to make any changes to the agreed fees at this stage.

The planned audit fee for 2015/16 is £110,153. This is a reduction in audit fee, compared to 2014/15, of £36,717 (25 percent).

Our audit fee includes our work on the VFM conclusion and our audit of the Authority's financial statements.



### Driving more value from the audit through data and analytics

Technology is embedded throughout our audit approach to deliver a high quality audit opinion. Use of Data and Analytics (D&A) to analyse large populations of transactions in order to identify key areas for our audit focus is just one element. We strive to deliver new quality insight into your operations that enhances our and your preparedness and improves your collective 'business intelligence.' Data and Analytics allows us to:

- Obtain greater understanding of your processes, to automatically extract control configurations and to obtain higher levels assurance.
- Focus manual procedures on key areas of risk and on transactional exceptions.
- Identify data patterns and the root cause of issues to increase forward-looking insight.

**We anticipate using data and analytics in our work around key areas such as accounts payable and journals. We also expect to provide insights from our analysis of these tranches of data in our reporting to add further value from our audit.**



Your audit team has been drawn from our specialist public sector assurance department. Tim Cutler is our national Head of Local Government Audit, and joins the team as the Partner. Iain Leviston and Reena Ghelani provide continuity from last year.



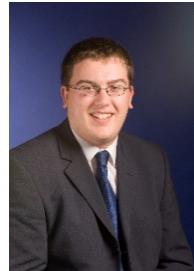
<b>Name</b>	Tim Cutler
<b>Position</b>	Partner
	<p>'My role is to lead our team and ensure the delivery of a high quality, valued added external audit opinion.</p> <p>I will be the main point of contact for the Audit Committee and Chief Executive.'</p>

**Tim Cutler**

Partner

0161 246 4774

tim.cutler@kpmg.co.uk



<b>Name</b>	Iain Leviston
<b>Position</b>	Manager
	<p>'I provide quality assurance for the audit work and specifically any technical accounting and risk areas.</p> <p>I will work closely with Tim to ensure we add value.</p> <p>I will liaise with the Director of Resources and other Executive Directors.'</p>

**Iain Leviston**

Manager

0161 246 4403

iain.leviston@kpmg.co.uk



<b>Name</b>	Reena Ghelani
<b>Position</b>	Assistant Manager
	<p>'I will be responsible for the on-site delivery of our work and will supervise the work of our audit assistants.'</p>

**Reena Ghelani**

Assistant Manager

0161 246 4958

reena.ghelani@kpmg.co.uk

### Independence and objectivity

Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The standards define 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case this is the Audit Committee.

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standard 1 Integrity, Objectivity and Independence requires us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

Further to this auditors are required by the National Audit Office's Code of Audit Practice to:

- Carry out their work with integrity, independence and objectivity;
- Be transparent and report publicly as required;
- Be professional and proportional in conducting work;
- Be mindful of the activities of inspectorates to prevent duplication;
- Take a constructive and positive approach to their work;
- Comply with data statutory and other relevant requirements relating to the security, transfer, holding, disclosure and disposal of information.

PSAA's Terms of Appointment includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Auditors and senior members of their staff who are directly involved in the management, supervision or delivery of PSAA audit work should not take part in political activity.

- No member or employee of the firm should accept or hold an appointment as a member of an audited body whose auditor is, or is proposed to be, from the same firm. In addition, no member or employee of the firm should accept or hold such appointments at related bodies, such as those linked to the audited body through a strategic partnership.
- Audit staff are expected not to accept appointments as Governors at certain types of schools within the local authority.
- Auditors and their staff should not be employed in any capacity (whether paid or unpaid) by an audited body or other organisation providing services to an audited body whilst being employed by the firm.
- Auditors appointed by the PSAA should not accept engagements which involve commenting on the performance of other PSAA auditors on PSAA work without first consulting PSAA.
- Auditors are expected to comply with the Terms of Appointment policy for the Engagement Lead to be changed on a periodic basis.
- Audit suppliers are required to obtain the PSAA's written approval prior to changing any Engagement Lead in respect of each audited body.
- Certain other staff changes or appointments require positive action to be taken by Firms as set out in the Terms of Appointment.

### Confirmation statement

We confirm that as of 28 January 2016 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.



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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website ([www.psaa.co.uk](http://www.psaa.co.uk)).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Tim Cutler, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers, by email to [Andrew.Sayers@kpmg.co.uk](mailto:Andrew.Sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing [generalenquiries@psaa.co.uk](mailto:generalenquiries@psaa.co.uk) by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.