Appendix 5(b)

External Audit Report 2015/16

Blackpool Council

September 2016

DRAFT

Contents

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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. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (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 Trevor Rees, 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 (on 0207 694 8981, or by email to 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, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3H.

Section one: Introduction

Introduction

This document summarises:

- **The key issues identified during our audit of the financial statements for the year ended 31 March 2016 for the Authority; and**
- **Our assessment of the Authority's arrangements to secure value for money.**

Scope of this report

This report summarises the key findings arising from:

- Our audit work at Blackpool Council (the Authority') in relation to the Authority's 2015/16 financial statements; and
- The work to support our 2015/16 conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

Financial statements

Our *External Audit Plan 2015/16*, presented to you in January 2016, set out the four stages of our financial statements audit process.

Planning | Control Evaluation | Substantive Procedures | Completion

This report focuses on the third stage of the process: substantive procedures. Our on site work for this took place during August 2016.

We are now in the final phase of the audit, the completion stage. Some aspects of this stage are also discharged through this report.

VFM Conclusion

Our External Audit Plan 2015/16 explained our risk-based approach to VFM work. We have now completed the work to support our 2015/16 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion; and
- Considering the results of any relevant work by the Authority and other inspectorates and review agencies in relation to these risk areas.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 2015/16 financial statements of the Authority and the fund.
- Section 4 outlines our key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1. We have also reviewed your progress in implementing prior recommendations.

Acknowledgements

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

Section two: Headlines

Headlines

This table summarises the headline messages for the Authority. Sections three and four of this report provide further details on each area.

This table summarises the headline messages. Sections three and four of this report provide further details on each area.

Proposed audit opinion	We anticipate issuing an unqualified audit opinion on the Authority's financial statements by 30 September 2016. We will also report that your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.
Audit adjustments	Our audit has not identified any audit adjustments during 2015/16. We have also not identified any recommendations to make for 2015/16.
Key financial statements audit risks	We review risks to the financial statements on an ongoing basis. We identified one significant risk specific to the Authority during 2015/16 with respect to the financial statements. We have worked with officers throughout the year to discuss this key risk and our still completing our work in this area. We will provide an update at the Audit Committee meeting.
Accounts production and audit process	We received complete draft accounts by 20 June 2016, ahead of the 30 June deadline set by the Department of Communities and Local Government (DCLG). The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Code. The Authority has implemented all of the recommendations in our *ISA 260 Report 2014/15* relating to the financial statements. The Authority has good processes in place for the production of the accounts and good quality supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales. As in previous years, we will debrief with the Closedown team to share views on the final accounts audit. Hopefully this will lead to further efficiencies in the 2016/17 audit process. In particularly we would like to thank the officers who were available throughout the audit visit to answer our queries.

Headlines (cont.)

This table summarises the headline messages for the Authority. Sections three and four of this report provide further details on each area.

This table summarises the headline messages. The remainder of this report provides further details on each area.

VFM conclusion and risk areas	When issuing our *External Audit Plan 2015/16* we had not completed our work to identify any VFM risks. Since that report, one VFM risk has been identified; the risk of financial resilience. We have worked with officers throughout the year to discuss this VFM work and our detailed findings are reported in section 4 of this report. At the time of drafting this report we are awaiting a copy of the draft 2016/17-2021/22 medium term financial plan, which will provide the remaining evidence required to complete our review. As yet we have not seen any evidence that the arrangements the Authority has in place are inappropriate, and we anticipate issuing an unqualified VFM conclusion by 30 September 2016.
Completion	At the date of this report our audit of the financial statements is substantially complete subject to completion of the following areas: — Completion of audit work relating to significant account areas — Completion of whole of government accounts review. — Review of final subsidiary accounts. — Review of post balance sheet events up to the date of signing the audit report. You are required to provide us with representations on specific matters such as your going concern assertion and whether the transactions in the accounts are legal and unaffected by fraud. We provided a draft of this representation letter to the Section 151 Officer. We draw your attention to the requirement in our representation letter for you to confirm to us that you have disclosed all relevant related parties to us. We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Section three: Financial Statements

Proposed opinion and audit differences

We have not identified any issues in the course of the audit that are considered to be material.

Proposed audit opinion

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's financial statements following approval of the Statement of Accounts by the Audit Committee on 22 September 2016.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final materiality (see Appendix two for more information on materiality) level for this year's audit was set at £3.5 million. Audit differences below £175,000 are not considered significant.

We did not identify any material misstatements. We identified a number of issues that have been adjusted by management as they do not have a material effect on the financial statements.

In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 ('the Code'). We understand that the Authority will be addressing these where significant.

The table on the right illustrates the total assets and reserves of the Authority as at 31 March 2016.

Annual governance statement

We have reviewed the Annual Governance Statement and confirmed that:

- It complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE; and
- It is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

Balance sheet as at 31 March 2016	
£m	
Property, plant and equipment	764,054
Other long term assets	46,661
Current assets	58,711
Current liabilities	(148,160)
Long term liabilities	(382,578)
Net worth	**338,688**
Useable reserves	68,297
Unusable reserves	270,391
Total reserves	**(338,688)**

Significant audit risks

We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on those risks.

In our External Audit Plan 2015/16, presented to you in January 2016, we identified a significant risk affecting the Authority's 2015/16 financial statements. We have now completed our testing in these area and set out our evaluation following our substantive work.

The table below sets out our detailed findings for this risk that are specific to the Authority.

Significant Risk 1: Minimum Revenue Provision

— **Risk**

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.

— **Findings**

The Authority's new MRP approach is still being reviewed in line with experiences elsewhere within the sector. While the move to a 2 per cent straight-line approach can be considered to be more prudent that the previous reducing balance method, we are seeking advice from technical colleagues regarding the retrospective nature of the change, as well as auditing the effects of the adjustment.

We will give members an update at the Audit Committee meeting.

Significant audit risks

We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on those risks.

In our *External Audit Plan 2015/16* we reported that we would consider two risk areas that are specifically required by professional standards and report our findings to you. These risk areas were Management override of controls and the Fraud risk of revenue recognition.

The table below sets out the outcome of our audit procedures and assessment on these risk areas.

Fraud risk of revenue recognition

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

In our External Audit Plan 2015/16 we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.

This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.

Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of 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. We have not identified any specific additional risks of management override relating to this audit.

In line with our methodology, we carried 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.

There are no matters arising from this work that we need to bring to your attention.

Other areas of focus

In our External Audit Plan 2015/16, presented to you in January 2016, we identified nine areas of audit focus. These are not considered as significant risks but areas of importance where we would carry out some substantive audit procedures to ensure there is no risk of material misstatement.

We have now completed our testing. The table sets out our detailed findings for each.

Area of focus 1 : Cash

Risk

— Due to its nature, this will always remain an area of special audit focus.

Findings

— We have verified bank and loan balances held by the Authority to third party confirmations

— We have tested the bank reconciliation controls to ensure variances are being followed up and amounts are verified back

We are satisfied that there was no material misstatement identified and have not identified any issues to being to your attention.

Area of focus 2: Payroll

Risk

— The size of the Authority's payroll costs require this to be considered, despite the routine nature of many of the transactions.

Findings

— The Payroll expectations were in line with the figures presented in the accounts

— Disclosures over Director's emoluments were agreed back to payroll

We are satisfied that there was no material misstatement identified and have not identified any issues to being to your attention.

Other areas of focus

In our External Audit Plan 2015/16, presented to you in January 2016, we identified nine areas of audit focus. These are not considered as significant risks but areas of importance where we would carry out some substantive audit procedures to ensure there is no risk of material misstatement.

We have now completed our testing. The table sets out our detailed findings for each.

Area of focus 3 : Accounts Payable

Risk

— There are significant and high costs within this balance. There is a risk that a failure of the system to record expenditure accurately or in a timely manner could lead to a material misstatement.

Findings

— We have performed data analytics routines to identify transactions which are high risk

— We have held discussions with management to identify the reasoning for these transactions and agreed to supporting documentation to ensure expenditure is both reliable and accurate.

We are satisfied that there was no material misstatement identified and have not identified any issues to bring to your attention.

Area of focus 4: Net Pension Liability

Risk

— This is a material balance in the accounts and calculated using significant judgement, made by the scheme actuary, hence there is a risk of material misstatement.

Findings

— We have reviewed the pensions liability disclosures provided by the scheme actuaries and ensured they reconcile to the accounts

— We have reviewed the assumptions used by the scheme actuaries and compared this to the KPMG benchmarks

— We have verified the payroll information send to the actuary has been processed appropriately and is correct.

We are satisfied that there was no material misstatement identified and have not identified any issues to being to your attention.

Other areas of focus

In our External Audit Plan 2015/16, presented to you in January 2016, we identified nine areas of audit focus. These are not considered as significant risks but areas of importance where we would carry out some substantive audit procedures to ensure there is no risk of material misstatement.

We have now completed our testing. The table sets out our detailed findings for each.

Area of focus 5 : Council Tax Income

Risk

- Council tax income is a material source of income for the Authority . Despite the routine nature of these transactions, system errors could cause a material misstatement to the accounts.

Findings

- We have reviewed the key controls in the Council tax system to ensure the system is robust.
- We have reviewed our expectation of Council tax income against actuals to ensure it is in line
- Precepts have been agreed to supporting documentation
- We have tested a sample of debtors, creditors and income back to supporting documentation.

We are satisfied that there was no material misstatement identified and have not identified any issues to being to your attention.

Area of focus 6: Business Rates Income

Risk

- Business rates income is a material source of income for the Authority. In particular, we no longer certify the NDR return, therefore, additional procedure need to be undertaken over this balance.

Findings

- We have reviewed our expectation of business rates income against actuals to ensure it is in line. This includes reviewing Valuation Office data and understanding any variances
- We have reconciled balances to central government notifications and the business rates system.

We are satisfied that there was no material misstatement identified and have not identified any issues to being to your attention.

Other areas of focus

In our External Audit Plan 2015/16, presented to you in January 2016, we identified nine areas of audit focus. These are not considered as significant risks but areas of importance where we would carry out some substantive audit procedures to ensure there is no risk of material misstatement.

We have now completed our testing. The table sets out our detailed findings for each.

Area of focus 7 : HRA Rental Income

Area

— The Authority receive a material amount of housing rental income from the HRA, hence there is a risk of material misstatement.

Findings

— We have reviewed our expectation of rental income to ensure it is in line with the accounts

— We have agreed a sample of arrears from the rent system to balance sheet and ensure they have been recorded accurately

— We have reviewed the impairment of arrears for reasonableness.

We are satisfied that there was no material misstatement identified and have not identified any issues to being to your attention.

Area of focus 8: Housing Benefits Expenditure

Risk

— The size of Housing Benefit Expenditure within the Authority make this balance at risk of material misstatement.

Findings

— We have reconciled the underlying benefit data to the draft subsidy form

— Expectations of expenditure has been reviewed back to actuals

— Year end cut off testing has been performed to ensure expenditure has been recorded within the correct year.

We are satisfied that there was no material misstatement identified and have not identified any issues to being to your attention.

Other areas of focus

In our External Audit Plan 2015/16, presented to you in January 2016, we identified nine areas of audit focus. These are not considered as significant risks but areas of importance where we would carry out some substantive audit procedures to ensure there is no risk of material misstatement.

We have now completed our testing. The table sets out our detailed findings for each.

Area of focus 9 : HRA Repairs and Maintenance expenditure

Area

— 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.

Findings

— We have reviewed the expenditure to ensure that it is in line with our expectations

— We have agreed a sample of capitalised expenditure to ensure that the capitalisation is appropriate and that the balances capitalised are appropriate.

We are satisfied that there was no material misstatement identified and have not identified any issues to being to your attention.

Accounts production and audit process

We have noted an improvement in the quality of the accounts and the supporting working papers.

Officers dealt efficiently with audit queries and the audit process could be completed within the planned timescales.

The Authority has implemented all of the recommendations in our ISA 260 Report 2014/15.

Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the Authority's accounting practices and financial reporting. We also assessed the Authority's process for preparing the accounts and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The Authority has maintained the strong financial reporting processes identified in previous years. We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a complete set of draft accounts on 20 June 2016.
Quality of supporting working papers	Our *Accounts Audit Protocol*, which we issued in March and discussed with the Senior Accountant, set out our working paper requirements for the audit. The quality of working papers provided was generally good and met the standards specified in our Accounts Audit Protocol.
Response to audit queries	Officers resolved the majority of audit queries in a reasonable time.

Element	Commentary
Group audit	To gain assurance over the Authority's group accounts, we placed reliance on work completed by component auditors on the financial statements of the subsidiaries. We have sent letters to the auditors of the key components of the Group (Blackpool Transport Services, Blackpool Operating Company and Blackpool Entertainment Company) to obtain assurance on these elements of the Group accounts. There are no specific matters to report pertaining to the group audit.

report.

The Authority has implemented all of the recommendations in our *ISA 260 Report 2014/15*.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of Blackpool Council for the year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and Blackpool Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix four in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Responsible Finance Officer for presentation to the Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with management;
- Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- Matters specifically required by other auditing standards to be communicated to those charged with governance (for example significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc.).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report.

Section four: Value for Money

VFM Conclusion

Our VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We follow a risk based approach to target audit effort on the areas of greatest audit risk.

We are awaiting an important piece of audit evidence before we conclude that the Authority has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

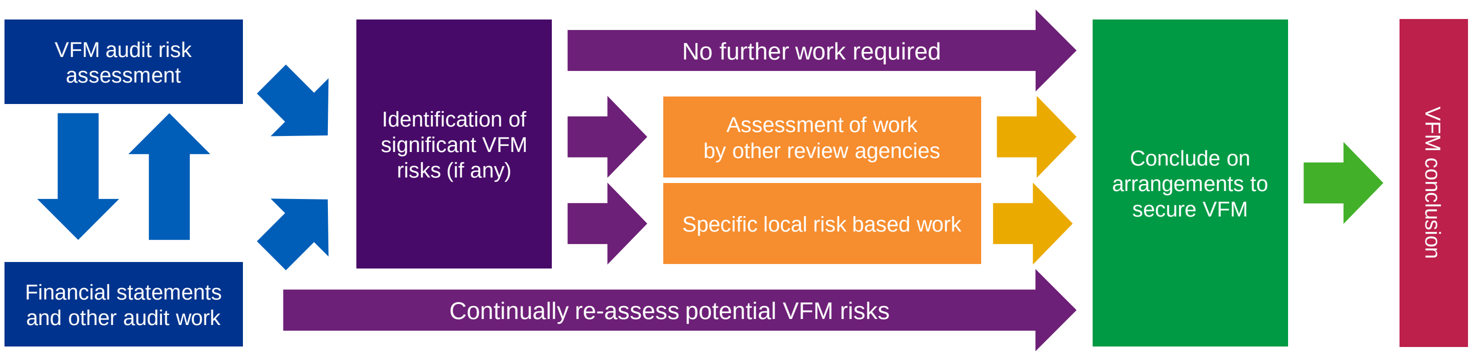
Background

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 2014/2015 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.



Conclusion

At present we cannot conclude on the Authority's VFM arrangements, but we will be able to provide a verbal update to members at the Audit Committee on 22 September.

Specific VFM Risks

We have identified one specific VFM risk.

We are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

Work completed

In line with the risk-based approach set out on the previous page, and in our *External Audit Plan* we have:

— Assessed the Authority's key business risks which are relevant to our VFM conclusion;

— Identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit; and

— Considered the results of relevant work by the Authority, inspectorates and review agencies in relation to these risk areas

Key findings

Below we set out the findings in respect of those areas where we have identified a residual audit risk for our VFM conclusion.

As yet we cannot conclude our work on this area as the key element of audit evidence, the medium-term financial plan, is still being drafted. Meetings with management indicate that the plan will be completed and will be robust and realistic. As such, we anticipate issuing a clean Value for Money Conclusion for the Authority for 2015/16.

Significant VFM Risk 1: Financial resilience

— **Risk**

The Authority continues to have to make significant savings to reflect the continuing reduction in the central government grant and cost pressures, especially those relating to children's services. Savings of £25.1 million have been included in the 2016/17 revenue budget for the Council, which will be mostly met through staff redundancies and the elimination of vacant posts.

Further savings will be required in future years, and a six year medium term financial plan is being developed by the Director of Finance. Early work on this plan indicated a further £15.9 million of savings would be required for 2017/18.

Savings of this magnitude are a significant challenge for the Authority, especially in the context of those already made since 2010. However, the Authority has always managed to achieve its savings targets, predominately through the recurring rather than one-off savings, which has reduced the burden of making further savings over this period.

— **Findings**

At present our work in this area is incomplete as we have just received a draft version of the new medium-term financial plan. Savings plans in 2016/17 have been put under pressure by overspends in Children's Services, which reflect a significant increase in demand for services as opposed to increases in unit cost. Underspends elsewhere in the Authority, and further savings plans to be introduced in year are intended to mitigate this increase and keep expenditure in 2016/17 within the overall level set in the budget.

An update on our VFM work will be provided at the Audit Committee.

Appendices

Audit differences

This appendix sets out the significant audit differences identified during the audit for the year ended 31 March 2016.

We are pleased to report that there are no uncorrected audit differences.

There is no net impact on the General Fund and HRA as a result of the amendments.

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

Uncorrected audit differences

We are pleased to report that there are no uncorrected audit differences.

Non-significant audit differences

Our audit identified a small number of non-significant errors in the financial statements. These have been discussed with management and the financial statements have been amended for all of them.

Presentation amendments

A number of minor amendments focused on presentational improvements have also been made to the draft financial statements. These include:

- The split between long and short-term borrowings within the financial instruments note;
- An updating of the disclosure note for the Municipal Bond Agency; and
- Updating the provisions note to properly reflect the provisions utilised in the year.

None of these adjustments has affected the primary statements.

The Finance Department are committed to continuous improvement in the quality of the financial statements submitted for audit in future years.

Materiality and reporting to the Audit Committee

For 2015/16 our materiality is £3.5 million for the Authority's accounts.

We have not identified any differences to report over £0.175 million for the Authority's accounts.

Materiality

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

— Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.

— Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.

— Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our External Audit Plan 2015/16, presented to you in January 2016.

Materiality for the Authority's accounts was set at £3.5million which equates to around one 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 misstatements of lesser amounts to the extent that these are identified by our audit work.

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

ISA 450 requires us to request that uncorrected misstatements are corrected.

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 £0.175 million for the Authority.

Where 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.

Declaration of independence and objectivity

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice.

Requirements

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice (the 'Code') which states that:

"The auditor should carry out their work with integrity, objectivity and independence, and in accordance with the ethical framework applicable to auditors, including the ethical standards for auditors set by the Financial Reporting Council, and any additional requirements set out by the auditor's recognised supervisory body, or any other body charged with oversight of the auditor's independence. The auditor should be, and should be seen to be, impartial and independent. Accordingly, the auditor should not carry out any other work for an audited body if that work would impair their independence in carrying out any of their statutory duties, or might reasonably be perceived as doing so."

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Public Sector Audit Appointments Ltd *Terms of Appointment* ('Public Sector Audit Appointments Ltd Guidance') and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Public Sector Audit Appointments Ltd guidance requires appointed auditors to follow the provisions of ISA (UK&I) 260 Communication of *Audit Matters with Those Charged with Governance'* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

— Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.

— The related safeguards that are in place.

— The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our *Annual Audit Letter*.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

Declaration of independence and objectivity (cont.)

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the *Ethics and Independence Manual* ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual ethics and independence confirmation. Failure to follow these policies can result in disciplinary action.

Auditor declaration

In relation to the audit of the financial statements of Blackpool Council for the financial year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and Blackpool Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

Non-audit fees

Audit Fees

Our scale fee for the audit was £110,153 plus VAT in 2015/16. This fee was in line with that highlighted within our audit plan agreed by the Audit Committee in March 2016. Our scale fee for certification of grant claims and returns was £10,112 plus VAT, in 2015/16. We are undertaking a number of other assurance services for the Authority.

Description of assurance service	Estimated fee	Potential threat to auditor independence and associated safeguards in place
Certification of grants and returns – non PSAA This is the certification of non-PSAA grants and returns. These include the Teachers' Pensions Agency return, the Pooling of Capital Receipts return, the Skills Funding Agency sub-contracting review and the Homes and Communities Agency compliance audit.	£12,250	These works are subject to separate engagement procedures between KPMG and the Authority as they fall outside of the scope of the PSAA appointment. The work is separate from the external audit requirement, and involves KPMG performing specific procedures to meet the requirements of the relevant reporting bodies, and on which we provide a factual report.
Total estimated fees (as a percentage of the external audit fee)	**£12,250 (11.1%)**	

Non-audit services

We have summarised below the non-audit services that we have been engaged to provide, the estimated fee, the potential threats to auditor independence and the associated safeguards we have put in place to manage these.

Description of assurance service	Estimated fee	Potential threat to auditor independence and associated safeguards in place
Tax advice and compliance – Blackpool Transport Services Tax colleagues have undertaken various engagements with BTS. This work has included: — ad-hoc corporation tax and VAT advice; — corporation tax compliance work, including converting the financial statements into a format to be submitted to HMRC; and — advice on transfer pricing issues with the leasing by BTS of the Blackpool Tramway.	£20,150	This engagement is entirely separate from the audit through a separate contract, engagement team and lead partner. The nature of the work is to provide advice and guidance to management at BTS; all decisions are made by BTS. We will not act as advocates for BTS in any aspect of this work. We will draw on our experience in such roles to provide BTS with a range of approaches but the scope of this work falls well short of any advocacy role. The existence of a separate team for this work is a further safeguard. Consequently, we consider we have appropriately managed this threat.
Total estimated fees (as a percentage of the external audit fee)	**£20,150 (18.3%)**	

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