External audit report 2016/17

Blackpool Council

— Draft

September 2017

Summary for Audit Committee

Financial statements

This document summarises the key findings in relation to our 2016-17 external audit at Blackpool Council ('the Authority').

This report focusses on our on-site work which was completed in July 2017 on the Authority's significant risk areas, as well as other areas of your financial statements. Our findings are summarised on pages 6 – 7.

Subject to all outstanding queries being resolved to our satisfaction we anticipate issuing an unqualified audit opinion on the Authority's financial statements before the deadline of 30 September.

We have identified no audit adjustments, but we have raised five recommendations. Details on our recommendations can be found in Appendix 1.

We are now in the completion stage of the audit and anticipate issuing our completion certificate by 29 September 2017, and our Annual Audit letter by 31 October 2017.

However we are awaiting audit evidence before we conclude on the following areas:

- Payroll
- Pensions
- Related Parties
- Other substantive non-significant areas e.g. debtors, provisions, receipts in advance and financial instruments.
- Consolidation

A verbal update will be provided to members at the Audit Committee on 14 September.

Use of resources

We have completed our risk-based work to consider whether in all significant respects the Authority has proper arrangements to ensure has taken properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We therefore anticipate issuing an unqualified value for money opinion.

See further details on page 17.

Acknowledgements

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

We ask the Audit Committee to note this report.

Contents

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Section one

Financial Statements

We anticipate issuing an unqualified audit opinion on the Authority's 2016/17 financial statements by 30 September 2017. We will also report that your Annual Governance Statement complies with the guidance issued by CIPFA/SOLACE (*'Delivering Good Governance in Local Government'*) published in April 2016.

For the year ending 31 March 2017, the Authority has reported a deficit on the provision of services of £42.0 million. The impact on the General Fund has been a decrease of £4.1 million in the General Fund compared to 31 March 2016.

Significant audit risks

Our *External Audit Plan 2016/17* sets out our assessment of the Authority's significant audit risks. We have completed our testing in these areas and set out our evaluation following our work:

Significant audit risks	Work performed
1. Significant changes in the pension liability due to LGPS Triennial Valuation	**Why is this a risk?** During the year, the Pension Fund has undergone a triennial valuation with an effective date of 31 March 2016 in line with the *Local Government Pension Scheme (Administration) Regulations 2013*. The share of pensions assets and liabilities for each admitted body is determined in detail, and a large volume of data is provided to the actuary to support this triennial valuation. There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts. Most of the data is provided to the actuary by the Lancashire Pension Fund, who administer the Pension Fund. **Our work to address this risk** We have reviewed the process used to submit payroll data to the Pension Fund and have found no issues to note. We have also tested the year-end submission process and other year-end controls. We have also substantively agreed the total figures submitted to the actuary to the ledger with no issues to note. We have engaged with your Pension Fund auditors to gain assurance over the pension figures. Our actuaries have reviewed the assumptions used in calculating the assets and liabilities relating to the pension scheme, and confirmed that these are within our acceptable range.
2. Valuation of property plant and equipment	**Why is this a risk?** The Authority has a significant value of property, plant and equipment held on its balance sheet. In the 2015/16 financial statements, these were valued at £764 million. In addition, there are £8 million of heritage assets and £15 million of investment assets. The Authority uses an internal valuer to ensure that the valuation of these assets is up to date and not materially misstated. There is a risk that an internal valuer may come under increased pressure to value assets at a level to support the Authority's objectives (for example to reduce values and as such the annual depreciation charge, or to increase values to provide greater security for commercial borrowing). There is also a risk that items might not be valued on a sufficiently regular basis due to the quantity of valuation work required and limitation on the capacity of the valuation team. **Our work to address this risk** We have determined that the internal valuer is suitably qualified and experienced to be relied upon for audit purposes. Their valuations have been reviewed and agreed to the changes in the fixed asset values. The Tower has been impaired in 2016/17, due to lower visitor numbers leading to a reduction in income; we have confirmed that this is not a general trend across the other tourist attractions owned by the Council and as such impairments are not required on these other assets. We had also reviewed the Authority's full impairment review, from which this individual impairment was identified, and are satisfied with the work completed by the Authority to confirm that there are no further indications of impairment.

Significant audit opinion risks	Work performed
2. Valuation of property plant and equipment (continued)	Our work also identified that heritage assets had not been revalued; many of these had been scheduled to be revalued in 2015/16 but the Council did not have the resource to complete this in 2015/16 or 2016/17. The Authority has determined that the value of the art collection and the statues has not materially changed since they were formally revalued in 2012, while the book value of the other categories is cumulatively not material. However, we have raised a recommendation in Appendix 1 to ensure that timely valuations of all classes of PPE are completed. Finally, the Council has used the new discount factor introduced by DCLG to calculate the value of the social housing stock held in the Housing Revenue Account ('HRA'). This has contributed to a £9 million increase in the valuation in 2016/17. We have agreed with the Council that the use of the DCLG discount factor is not inappropriate for the Council's HRA assets.

Considerations required by professional standards

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 2016/17* 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 audit focus

We identified one area of audit focus. This is not considered as significant risks as it is less likely to give rise to a material error. Nonetheless this is an area of importance where we would carry out substantive audit procedures to ensure that there is no risk of material misstatement.

Other areas of audit focus	Our work to address the areas
1. Disclosures associated with retrospective restatement of CIES, EFA and MiRS	**Background** CIPFA has introduced changes to the 2016/17 Local Government Accounting Code (Code): — Allowing local authorities to report on the same basis as they are organised by removing the requirement for the Service Reporting Code of Practice (SeRCOP) to be applied to the Comprehensive Income and Expenditure Statement (CIES); and — Introducing an Expenditure and Funding Analysis (EFA) which provides a direct reconciliation between the way local authorities are funded and prepare their budget and the CIES. This analysis is supported by a streamlined Movement in Reserves Statement (MiRS) and replaces the current segmental reporting note. The Authority was required to make a retrospective restatement of its CIES (cost of services) and the MiRS. New disclosure requirements and restatement of accounts require compliance with relevant guidance and correct application of applicable accounting standards. **What we have done** For the restatement, we have obtained an understanding of the methodology used to prepare the revised statements. We are in the process of agreeing the figures disclosed to the Authority's general ledger.

Proposed opinion and audit differences

We anticipate issuing an unqualified audit opinion on the Authority's 2016/17 financial statements following approval of the Statement of Accounts by the Audit Committee on 14 September.

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 3 for more information on materiality) level for this year's audit was set at £4.5 million. Audit differences below £225,000 are not considered significant.

We did not identify any material misstatements. We identified a number of presentational 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 2016/17 ('the Code'). We understand that the Authority will be addressing these where significant.

Movements on the general fund 2016/17	£m
Deficit on the provision of services	(42.0)
Adjustments between accounting basis and funding basis under Regulations	33.2
Transfers from earmarked reserves	4.3
Decrease in General Fund and HRA	**(4.5)**

Balance sheet as at 31 March 2017	£m
Property, plant and equipment	751.5
Other long term assets	62.2
Current assets	51.9
Current liabilities	(160.1)
Long term liabilities	(465.9)
Net worth	**239.6**
General Fund (including Schools)	6.4
Other usable reserves	52.5
Unusable reserves	180.7
Total reserves	**239.6**

Annual governance statement

We have reviewed the Authority's 2016/17 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.

Narrative report

We have reviewed the Authority's 2016/17 narrative report and have confirmed that it is consistent with the financial statements and our understanding of the Authority.

Accounts production and audit process

Our audit standards (*ISA 260*) require us to communicate our views on 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. The efficient production of the financial statements and good-quality working papers are critical to meeting the tighter deadlines.

Introduction of KPMG Central

We introduced KPMG Central this year, which is a cloud-based document storage system to facilitate the secure transfer of large amounts of data between the Authority and the audit team. KPMG Central aligns to our Accounts Audit Protocol and allows the Authority's Finance Team to efficiently share requested information. Feedback from the finance team has been positive and allows us to keep track of uploaded documents.

Accounting practices and financial reporting

The Authority has recognised the additional pressures which the earlier closedown in 2017/18 will bring. We have been engaging with the Authority in the period leading up to the year end in order to proactively address issues as they emerge.

There were some delays where a change in audit approach dictated a greater reliance on statistical sampling and the need to obtain a larger than expected volume of documentary evidence mid-way through the audit. The Finance Team responded well to these requests, and provided this information to us in a timely manner.

Completeness of draft accounts

We received a complete set of draft accounts on 13 June 2017, which was ahead of the statutory deadline on 30 June. For 2017/18, the draft accounts will need to be completed by 31 May 2018.

Quality of supporting working papers

We issued our *Accounts Audit Protocol 2016/17* ("Prepared by Client" request) in April 2017 which outlines our documentation request. This helps the Authority to provide audit evidence in line with our expectations.

We found the working papers to have been produced to a high quality. While further inquiry and information was required in a number of areas, this was a routine part of the audit process and not indicative of incomplete or insufficient information provided by the Finance Team.

Group audit

To gain assurance over the Authority's group accounts, we placed reliance on the work completed by component auditors on the financial statements of the Authority's subsidiaries:

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

We are still awaiting the response from the auditor's to support our work in this area.

Prior year recommendations

We did not make any recommendations as a result of our 2015/16 audit, and as such have no points to follow up in 2016/17.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's 2016/17 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 2017, 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 4 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 Director of Resources 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 (e.g. 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.).

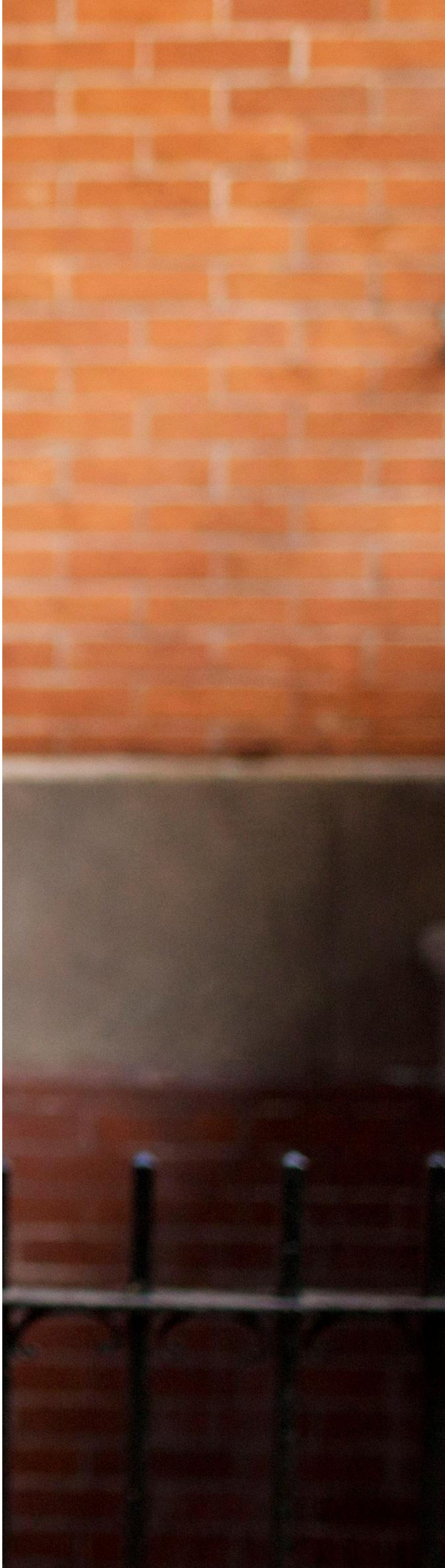
There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2016/17 financial statements.

Section two

Value for money

Our 2016/17 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 have concluded 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.



VFM conclusion

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.'

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.

1 Identification of significant VFM risks (if any)

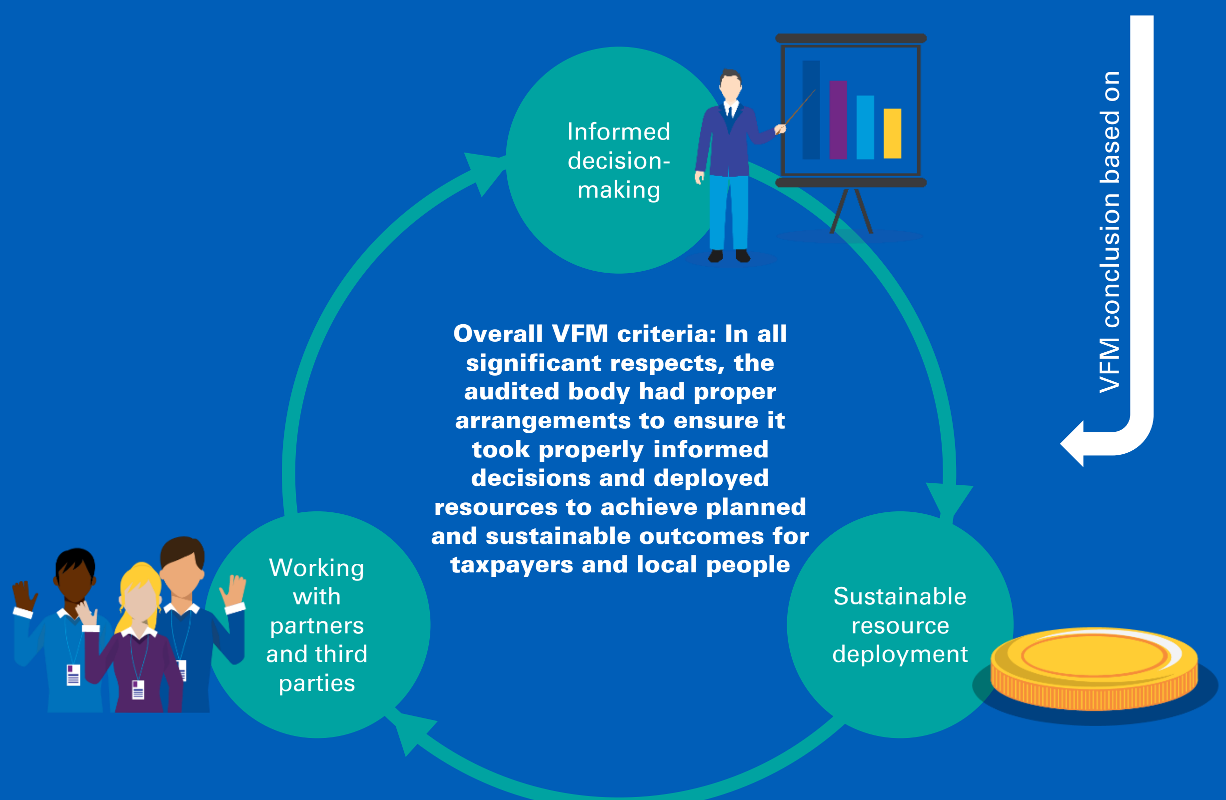
- VFM audit risk assessment
- Financial statements and other audit work

2 Continually re-assess potential VFM risks

- Assessment of work by other review agencies
- Specific local risk-based work

3 VFM conclusion

- **Conclude on arrangements to secure VFM**



The table below summarises our assessment of the individual VFM risks identified against the three sub-criteria. This directly feeds into the overall VFM criteria and our value for money opinion.

VFM assessment summary			
VFM risk	**Informed decision-making**	**Sustainable resource deployment**	**Working with partners and third parties**
1. Financial resilience	✓	✓	✓
2. Children's services	✓	✓	✓
Overall summary	✓	✓	✓

In consideration of the above, we have concluded that in 2016/17, 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.

Further details on the work done and our assessment are provided on the following pages.

Significant VFM risks

We have identified two significant VFM risks, as communicated to you in our *2016/17 External Audit Plan*. In all cases 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.

Significant VFM risks	Work performed
1. Financial resilience	**Why is this a 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 Authority, 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. The Authority has been asked in February 2017 to approve a budget containing £18.7 million of annual savings to achieve a balanced position. 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. **Summary of our work** Like most of local government, the Authority faces a challenging future driven by funding reductions and an increase in demand for services. However, the Authority has a robust financial management process. A medium term financial plan exists. This is updated annually and provides an estimate of the income and expenditure facing the Authority over its life. These estimates are based on current sector knowledge, and include reasonable assumptions for inflation which are category specific, i.e. pay assumptions are different to those for general inflation. We have verified that the model is arithmetically correct, and that the assumptions do not look unreasonable. The plan identifies a savings gap each financial year. This gap is then addressed during the annual budget cycle, with a range of saving opportunities being presented as a range of options to elected members, who then face the difficult task of determining which savings to make to close the identified gap. As in previous years, the council has continued to make the majority of savings through recurrent savings, reducing the pressure on future year budgets.

Significant VFM risks	Work performed
2. Children's Services	**Why is this a risk?** Children's Services represents the biggest budgetary pressure on the Authority in 2016/17, with a £4 million overspend by month eight compared to a budget which had been increased for the year. By their nature individual child placements in care are expensive, and a small increase in the number of such placements can have a material impact on the Authority's budget. The Authority has undertaken its own analysis, which shows that its cost per head are comparable with other local authorities in the region. However, in having one of the highest rates of looked after children in the country, the Authority is especially susceptible to financial challenge when needing to place additional children into care. **Summary of our work** We have engaged with the Director of Children's Services to understand the nature of the service and the reason for the continuing financial pressures. Having received a 'requires improvement' assessment from Ofsted in 2013, the Council has implemented additional steps to address these concerns. These actions have led to a more risk averse approach being adopted by the Service which has continued throughout the period since. At the same time, there has been a significant escalation in the number of cases being reported to the Council; in the last 10 years, there has been a 320% increase in such referrals, compared to a 140% increase elsewhere in the country. While a referral does not mean that a child will automatically be taken into care, a higher level of referrals will increase the number of cases of children who require support either in care or in the home environment. With the new Director in place, a review of current arrangements is currently ongoing. This recognises that the steps necessary to improve the service to meet the Ofsted requirements are different to those required to maintain the performance of the service and the safety of the children of Blackpool. Greater emphasis is also being placed on working more effectively with partners, so all contribute the appropriate support to those in need.

Appendices

Key issues and recommendations

Our audit work on the Authority's 2016/17 financial statements have identified a small number of issues. We have listed these issues in this appendix together with our recommendations which we have agreed with Management. We have also included Management's responses to these recommendations.

The Authority should closely monitor progress in addressing the risks, including the implementation of our recommendations. We will formally follow up these recommendations next year.

Each issue and recommendation have been given a priority rating, which is explained below.

High priority — Issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.

Medium priority — Issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.

Low priority — Issues that would, if corrected, improve internal control in general but are not vital to the overall system. These are generally issues of good practice that we feel would benefit if introduced.

The following is a summary of the issues and recommendations raised in the year 2016/17.

2016/17 recommendations summary

Priority	Number
High	**0**
Medium	**2**
Low	**3**
Total	**5**

Medium priority

1. Heritage asset valuations

The Art and Statue elements of heritage assets have not been revalued since 2011/12. Other, non-material, categories have not been revalued for many years prior to that date, although an assessment was performed in 2009/10 to ensure that the old valuations were not materially incorrect.

Heritage assets can be particularly susceptible to movement in market values. In addition, ongoing annual savings made by the Council reduces the value of materiality, making it more likely that balances will become material in the future.

There is a risk that by not revaluing heritage assets on a regular basis, valuations may be inconsistent with the market leading to material errors in the accounts, and incorrect insurance valuations.

Recommendation

The Authority should ensure that the heritage assets are valued on a regular basis; following the stated revaluation policy of doing this at least on a four yearly basis would be appropriate.

Where the nature of the heritage assets means that it is especially difficult or expensive to obtain a specialist valuation, the Authority should consider whether joint working with other local authorities could overcome these issues.

Management Response

Accepted

The Authority will review the valuations of the heritage assets in 2017/18. However due to the unique nature of the assets and a lack of market valuations any movement in valuations is expected to be minimal.

Owner

Karen Tomlinson

Deadline

31st March 2018

Medium priority

2. Housing system reconciliations

Reconciliations are undertaken between the cash received in the Orchard housing management system and the general ledger, and the fixed assets in the housing management system and the general ledger.

Reconciliations have been performed in these areas, and we have reviewed these to ensure that they are properly prepared and accurate.

However, there is no formal review of these reconciliations being evidenced by management.

There is a risk that errors that do occur may not be identified in a timely manner, leading to errors in the management accounts and financial statements. Delays in identifying errors can also make them more difficult to resolve.

Recommendation

Reconciliations should be reviewed a member of the team who has not prepared the reconciliation. This should be done within one week of the reconciliation being prepared, and this should be signed and dated to evidence this.

Management Response

Not accepted

The review of the cash reconciliation between Orchard and the general ledger is reviewed and signed off by the Head of Finance.

There is no reconciliation between the value of fixed assets in the HMS and ledger as this information is not held in a format that enables this between the two systems. The value of fixed assets is held on the balance sheet and adjusted at year end as per the annual valuation report, it is not held in any format on the HMS.

Owner

[TBC]

Deadline

[TBC]

Low priority

3. IT access rights

We identified two small issues with access rights to the IT system:

— Seven members of staff have 'superuser' access to the general ledger system, CEDAR. This is a higher number than would be expected to be the case. Additional superusers have been created to cover for staff absences.

— Within the Orchard housing management system, new users are automatically given at least read only access across the system, including modules for which they had no business need. Such access has to be revoked manually, but this is not always performed and in a timely manner.

Inappropriate access rights increase the possibility of transactions being made in error or to perpetrate fraud. Read only access could allow personal data to be made available in an inappropriate manner.

Recommendation

Within the CEDAR system, superuse access rights should be regularly reviewed and the number of superusers reduced when possible.

New users should have their access requirements within Orchard clearly defined, and unnecessary access revoked as part of the initial set up process.

Management Response

Accepted

This has been reviewed and the number of superusers has been reduced to 6. Cover must be provided for the Cedar System and due to leave, sickness and part time working 6 is not considered unreasonable.

The Cedar system is currently being upgraded and a further review of the number of superusers will take place after this upgrade.

More information and examples are required for the new users in Orchard before we can comment on this. New users permissions are role based and we are not aware this is an issue.

Owner

Phil Redmond/Tony Hoover

Deadline

31st March 2018

Low priority

4. IT system upgrades

The Orchard housing management system has had some patch upgrades during the financial year. Although the upgrades were successfully tested prior to being introduced to the live environment, no record of these tests has been retained.

Without an audit trail there is no evidence as to which tests were undertaken and the outcome of these tests. Future issues in the system attributable to the patch may be more difficult to trace.

Recommendation

Full details of the tests performed on system upgrades should be maintained, including the nature of the tests performed and the results of these tests. Evidence that the upgrade has been signed off following the successful completion of the tests should also be retained.

Management Response

Accepted

Formal procedure and records to be brought in and retained for any future upgrades.

Owner

Karen Tomlinson

Deadline

31st March 2018

Low priority

5. Santander bank account

The Authority retains a very old Santander bank account. The balance is trivial, but due to its age no current member of staff has authority with Santander, and as such independent evidence to corroborate the balance is unavailable.

While the account exists there is a risk that it could be used fraudulently and without the Authority's knowledge.

Recommendation

The Authority should engage with Santander to close the account.

Management Response

Santander to be contacted and account closed.

Owner

Karen Tomlinson

Deadline

31st October 2017

Audit differences

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.

A number of minor amendments focused on presentational improvements have also been made to the 2016/17 draft financial statements. The Finance team is committed to continuous improvement in the quality of the financial statements submitted for audit in future years.

Adjusted audit differences

We have not identified any adjusted audit differences that impact upon the primary statements for the Authority.

Unadjusted audit differences

We have not identified any unadjusted audit differences that impact on the primary statements for the Authority.

Materiality and reporting of audit differences

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 2016/17, presented to you in February 2017.

Materiality for the Authority's accounts was set at £4.5 million 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 £225,000 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 (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.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP Audit Partners and staff annually confirm their compliance with our Ethics and Independence Manual including in particular that they have no prohibited shareholdings.

Our Ethics and Independence Manual is fully consistent with the requirements of the Ethical Standards issued by the UK Auditing Practices Board. As a result we have underlying safeguards in place to maintain independence through: Instilling professional values, Communications, Internal accountability, Risk management and Independent reviews.

We would be happy to discuss any of these aspects of our procedures in more detail.

Auditor declaration

In relation to the audit of the financial statements of Blackpool Council for the financial year ending 31 March 2017, 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.

Appendix 5

Audit fees

Audit fees

As communicated to you in our External Audit Plan 2016/17, our scale fee for the audit is £110,153 plus VAT, which is the same as 2015/16.

Our work on the certification of Housing Benefits (BEN01) is not yet complete. The planned scale fee for this is £13,658 plus VAT. Planned fees for other grants and claims which do not fall under the PSAA arrangements are £5,800 plus VAT.

PSAA fee table

Component of audit	**2016/17** *(planned fee)* £	**2015/16** *(actual fee)* £
Accounts opinion and use of resources work		
PSAA scale fee	110,153	110,153
Subtotal	**110,153**	**110,153**
Housing benefits (BEN01) certification work		
PSAA scale fee	13,658	10,112
Total fee for the Authority set by the PSAA	**123,811**	**120,265**

All fees are quoted exclusive of VAT.