Appendix 4(b)

KPMG

External Audit ISA 260 Report 2017/18 DRAFT

Blackpool Council

30 July 2018

Summary for Audit Committee

This document summarises the key findings in relation to our 2017/18 external audit at Blackpool Council ('the Authority').

This report covers both our on-site work which was completed in March and July 2018 on the Authority's significant risk areas, as well as other areas of your financial statements, and the control environment in place to support the production of timely and accurate financial statements.

Organisational and IT control environment

We consider that your organisational and IT control environments are effective.

Controls over key financial systems

— Understand accounting and reporting activities

— Evaluate design and implementation of selected controls

— Test operating effectiveness of selected controls

— Assess control risk and risk of the accounts being misstated

Accounts production

The Authority incorporated a number of measures into its closedown plan to further improve the project management of this complex process. Specifically, the Authority recognised the additional pressures which the earlier closedown brought and we engaged with officers in the period leading up to the year end in order to proactively address issues as they emerged.

Financial statements

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 31 July 2018.

At the time of writing the below areas of work remained outstanding:

- Review of final updated set of financial statements;
- Completion of final work with regards to roll forward of pension fund assets (due to late additional work requested); and
- Resolution of a number of minor additional queries.

Based upon our initial assessment of risks to the financial statements (as reporting to you in our *External Audit Plan 2017/18* and updated during our audit) we identified the following significant risks (excluding those mandated by International Standards on Auditing – see pages 11 to 13):

Valuation of PPE – Whilst the Authority operates a cyclical revaluation approach, the Code requires that all land and buildings be held at fair value. We will consider the way in which the Authority ensures that assets not subject to in-year revaluation are not materially misstated.

Pensions Liabilities – The valuation of the Authority's pension liability, as calculated by the Actuary, is dependent upon both the accuracy and completeness of the data provided and the assumptions adopted. We will review the processes in place to ensure accuracy of data provided to the Actuary and consider the assumptions used in determining the valuation.

Faster Close – The timetable for the production of the financial statements has been significantly advanced with draft accounts having to be prepared by 31 May (2017: 30 June) and the final accounts signed by 31 July (2017: 30 September). We will work with the Authority in advance of our audit to understand the steps being taken to meet these deadlines and the impact on our work.

Summary for Audit Committee (cont.)

Financial statements

We undertook an initial assessment of risks to the financial statements at planning stage and identified no significant risks other than the risk of management override of controls. We have updated our assessment and still consider there to be no additional specific risks.

We have identified two audit adjustments, however we are still awaiting information from the actuary of the Lancashire Pension Fund to quantify the exact impact of one of these adjustments. Further details are provided on page 29.

We have not identified any audit recommendations as a result of our 2017/18 audit.

We are now in the completion stage of the audit and anticipate issuing our completion certificate and Annual Audit letter by 31 August 2018 and will present this to your meeting on 6 September 2018.

Value for money arrangements

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

We set out our assessment of those areas requiring additional risk based work in our *External Audit Plan 2017/18* and have updated this assessment during our interim visit. As a result of this we have identified the following significant VFM audit risks:

Delivery of Budgets – The Authority identified the need to make savings of £18.7m in 2017/18 to be met through cut to some services, council tax increase of 4.99%, staff redundancies and the elimination of vacant posts.

The Authority's budget for 2018/19 was approved at the Council meeting in February 2018. It recognised the need for £5.5 million in savings after allowing for the full 5.99% increase in Council Tax (which included the 3% Adult Social Care Precept). The approved budget includes individual proposals to support the delivery of the overall savings requirement. Further savings will be required over the period to principally address future reductions to local authority funding alongside service cost and demand pressures. As a result, the need for savings will continue to have a significant impact on the Authority's financial resilience.

Children Services – Children's Services represents the biggest budgetary pressure on the Authority in 2017/18, with a £3.2 million forecast year-end overspend as at month 10, 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 continues to tackle the challenges faced in the local area, to ensure that it works effectively with partners to deliver a high quality service that is appropriate to every child's individual need. 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.

See further details on pages 21 and 22.

Summary for Audit Committee (cont.)

Exercising of audit powers	We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or if the public should know about. We have not identified any matters that would require us to issue a public interest report. In addition, we have not had to exercise any other audit powers under the Local Audit & Accountability Act 2014
Acknowledgements	We would like to take this opportunity to thank officers and Members for their continuing help

Section one

Control Environment

Organisational and IT control environment

We have identified no significant issues with the Authority's organisational and IT control environment and consider that the overall arrangements that have been put in place are reasonable.

Work completed

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit. We obtain an understanding of the Authority's overall control environment and determine if appropriate controls have been implemented. We do not complete detailed testing of these controls.

The Authority relies on information technology ("IT") to support both financial reporting and internal control processes. In order to satisfy ourselves that we can rely on the use of IT, we test controls over access to systems and data, system changes, system development and computer operations.

Key findings

We consider that your organisational and IT controls] are effective overall.

Aspect of controls	Assessment
Organisational controls:	
Management's philosophy and operating style	3
Culture of honesty and ethical behaviour	3
Oversight by those charged with governance	3
Risk assessment process	3
Communications	3
Monitoring of controls	3
IT controls:	
Access to systems and data	3
System changes and maintenance	3
Development of new systems and applications	3
Computer operations and end-user computing	3

Key	
1	Significant gaps in the control environment.
2	Deficiencies in respect of individual controls
3	Generally sound control environment.

Controls over key financial systems

The controls over the majority of the key financial systems are sound.

Work completed

We review the outcome of internal audit's work on the financial systems to influence our assessment of the overall control environment, which is a key factor when determining the external audit strategy.

Where we have determined that this is the most efficient audit approach to take, we evaluate the design and implementation of the control and then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

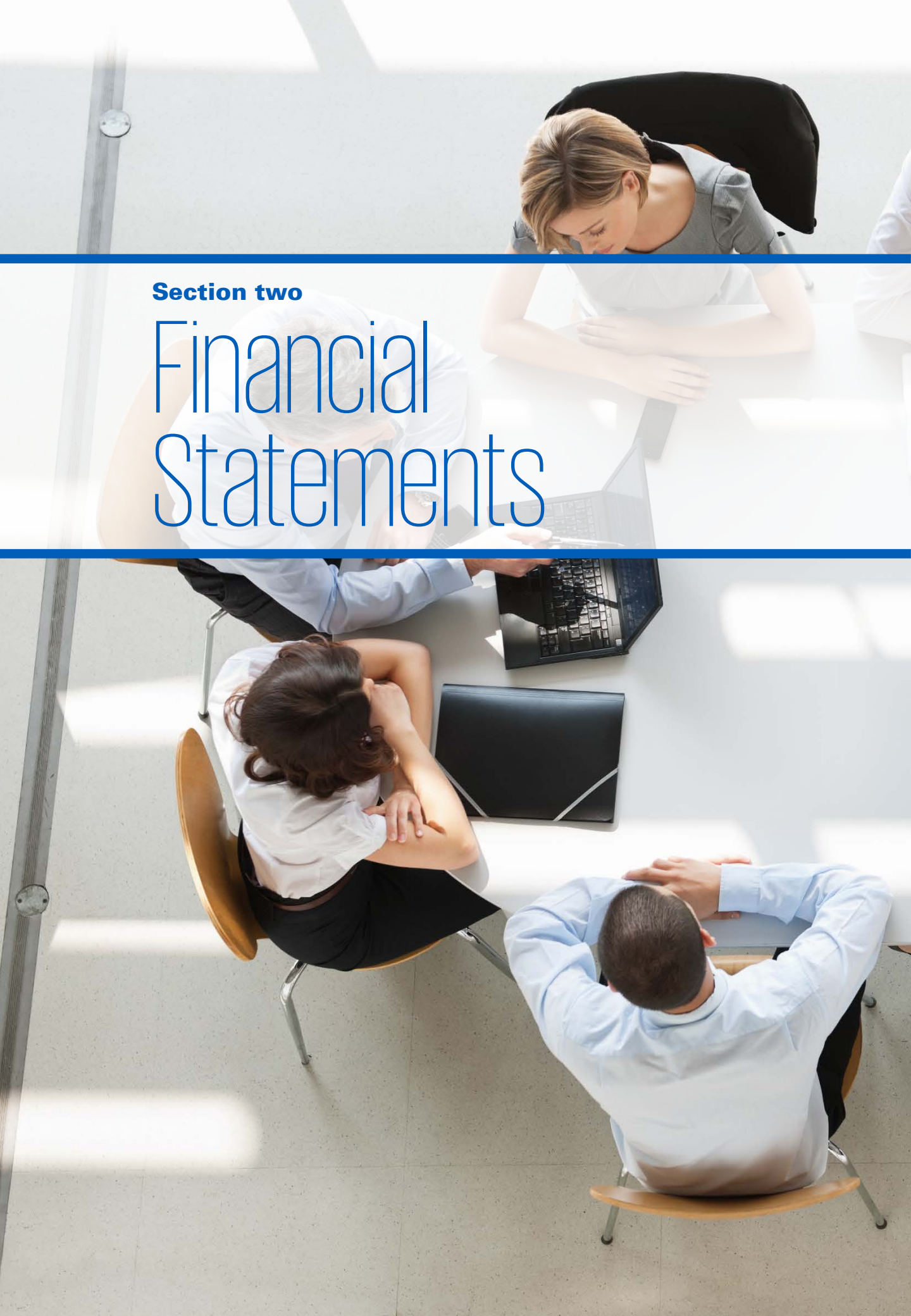
Our assessment of a system will not always be in line with your internal auditors' opinion on that system. This is because we are solely interested in whether our audit risks are mitigated through effective controls, i.e. whether the system is likely to produce materially reliable figures for inclusion in the financial statements.

Key findings

Based on our work, we have determined that the controls over the majority of the key financial systems are sound.

Aspect of controls	Assessment
Property, Plant and Equipment	3
Cash and Cash Equivalents	3
Pension Assets and Liabilities	3
Non pay expenditure	3
Payroll	3
Housing benefits expenditure	3
Business rates income	3
Council tax income	3
HRA rental income	3
HRA repairs and maintenance expenditure	3

Key	
1	Significant gaps in the control environment
2	Deficiencies in respect of individual controls
3	Generally sound control environment



Section two

Financial Statements

Accounts production and audit process

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.

The Authority's overall process for the preparation of the financial statements is adequate.

The Authority has implemented the majority of the recommendations in our *ISA 260 Report 2016/17*.

Accounts practices and production process

The Authority incorporated a number of measures into its closedown plan to further improve the project management of this complex process. Specifically, the Authority recognised the additional pressures which the earlier closedown brought and we engaged with officers in the period leading up to the year end in order to proactively address issues as they emerge.

We consider that the overall process for the preparation of your financial statements is good.

We also consider the Authority's accounting practices appropriate.

Going concern

The financial statements of the Authority have been prepared on a going concern basis. We confirm that we have identified no significant matters which would, in our view, affect the ability of the Authority to continue as a going concern.

Implementation of recommendations

We raised five recommendations in ISA 260 Report 2016/17. The Authority has implemented the majority of the recommendations relating to the financial statements in line with the timescales of the action plan.

The table overleaf sets out the Authority's progress against high priority recommendations. Further details are included in Appendix 2.

Accounts production and audit process (cont.)

Completeness of draft accounts

The draft accounts were published on-line on the Council's website on 29 May 2018, in accordance with the statutory deadline.

Quality of supporting working papers

We presented our Audit Plan to Audit Committee in May 2018.This important document sets out our audit approach and timetable. A prepared by client listing was shared subsequently including summary of the working papers and other evidence we require the Authority to provide to support our audit work. This helps the Authority to provide audit evidence in line with our expectations. We followed this up with a meeting with management to discuss specific requirements of the document request list.

Group audit

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

- Blackpool Transport Services Limited.
- Blackpool Coastal Housing Limited.
- Blackpool Entertainment Company Limited.
- Blackpool Operating Company Limited.
- Regional and City Airports (Blackpool) Holdings Limited.

We are still awaiting a response from the auditors of these entities, but as yet have not been made aware of through management of any specific matters pertaining to the Group audit.

We are also pleased to report that there were no issues to note in relation to the consolidation process.

Specific audit areas

We anticipate issuing an unqualified audit opinion on the Authority's 2017/18 financial statements by 31 July 2018. We will also report that your Annual Governance Statement is consistent with our understanding.

For the year ending 31 March 2018, the Authority has reported a deficit of £25 million. The impact on the General Fund has been a decrease of £300,000.

Auditing standards require us to consider two standard risks for all organisations. We consider these as a matter of course in our audit and will have set out the findings arising from our work in our ISA 260 Report below.

01

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.

02

Fraudulent 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 2017-18* 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.

Over the following pages we have set out our assessment of the specific significant risks and areas of audit focus we identified in relation to the audit of the Authority's financial statements.

Specific audit areas

Significant audit risks

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

Risk:

Valuation of PPE

The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Authority has adopted a rolling revaluation model which sees all land and buildings revalued over a four year cycle. As a result of this, however, individual assets may not be revalued for four years.

This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value. In addition, as the valuation is undertaken as at 1 April, there is a risk that the fair value is different at the year end.

Our assessment and work undertaken:

We reviewed the approach that the Authority adopted to assess the risk that assets not subject to valuation were materially misstated and considered the robustness of that approach.

In addition, we considered movements in market indices between revaluation dates and the year end in order to determine whether these indicate that fair values had moved materially over that time.

In relation to those assets which have been revalued during the year we reviewed the accounting entries made to record the results of the revaluation in order to ensure that they were appropriate.

We also assessed the valuer's qualifications, objectivity and independence to carry out such valuations and reviewed the methodology used (including testing the underlying data and assumptions).

We are currently completing our work in this area, and will be able to provide an update to the meeting.

We have set out our view of the assumptions used in relation to accounting for Property, Plant & Equipment on page 14.

Specific audit areas (cont.)

Significant audit risks

Risk:

Pension Liabilities

The net pension liability represents a material element of the Authority's balance sheet. The Authority is an admitted body of Lancashire Pension Fund, which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018.

The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Authority's overall valuation.

There are financial assumptions and demographic assumptions used in the calculation of the Authority's valuation, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Authority's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes.

There is a risk that the assumptions and methodology used in the valuation of the Authority's pension obligation are not reasonable. This could have a material impact to net pension liability accounted for in the financial statements.

Our assessment and work undertaken:

As part of our work we reviewed the controls that the Authority has in place over the information sent to the Scheme Actuary, including the Authority's process and controls with respect to the assumptions used in the valuation. We also evaluated the competency, objectivity and independence of Mercer, the Scheme Actuary.

We reviewed the appropriateness of the key assumptions included within the valuation and compared them to expected ranges and involved a KPMG Actuary to provide a specialist assessment of those assumptions. We also reviewed the methodology applied in the valuation by Mercer, the Scheme Actuary.

In order to determine whether the net pension liability has been appropriately accounted for we also considered the valuation of pension assets. We communicated with the Pension Fund auditor (Grant Thornton) to gain assurance over the overall value of fund assets.

Subject to the outstanding matter detailed below, as a result of this work we determined that the Authority's net pension liability had been appropriately recognised in the financial statements.

NOTE – at the time of writing there remained some outstanding final procedures with regards to the roll forward of pension fund assets, with particular regard to the increased risk around the estimation of asset values in the final quarter. This request was made relatively late in the audit and the Council are working to gather the information for this request.

We have set out our view of the assumptions used in valuing pension assets and liabilities at page 15.

Specific audit areas (cont.)

Significant audit risks

Risk:

Faster Close

In prior years, the Authority has been required to prepare draft financial statements by 30 June and then final signed accounts by 30 September. For years ending on and after 31 March 2018 however, revised deadlines apply which require draft accounts by 31 May and final signed accounts by 31 July.

These changes represent a significant change to the timetable that the Authority has previously worked to. The time available to produce draft accounts has been reduced by one month and the overall time available for completion of both accounts production and audit is two months shorter than in prior years.

In order to meet the revised deadlines, the Authority may need to make greater use of accounting estimates. In doing so, consideration will need to be given to ensuring that these estimates remain valid at the point of finalising the financial statements. In addition, there are a number of logistical challenges that will need to be managed. These include:

- Ensuring that any third parties involved in the production of the accounts (including valuers, actuaries, subsidiaries and subsidiary auditors are aware of the revised deadlines and have made arrangements to provide the output of their work in accordance with this;
- Revising the closedown and accounts production timetable in order to ensure that all working papers and other supporting documentation are available at the start of the audit process;
- Ensuring that the Audit Committee meeting schedules have been updated to permit signing in July; and
- Applying a shorter paper deadline to the July meeting of the Audit Committee meeting in order to accommodate the production of the final version of the accounts and our ISA 260 report.

In the event that the above areas are not effectively managed there is a significant risk that the audit will not be completed by the 31 July deadline.

There is also an increased likelihood that the Audit Certificate (which confirms that all audit work for the year has been completed) may be issued separately at a later date if work is still ongoing in relation to the Authority's Whole of Government Accounts return and the Pension Fund Annual Report. This is not a matter of concern and is not seen as a breach of deadlines.

Our assessment and work undertaken:

We liaised with officers in preparation for our audit in order to understand the steps that the Authority was taking in order to ensure it met the revised deadlines. We also advanced audit work into the interim visit in order to streamline the year end audit work.

We received draft financial statements in advance of the statutory deadline of 31 May 2018. The quality of this draft was consistent with that of prior years.

In a number of areas the Authority made increased use of estimates. In these areas we considered the assumptions used and challenged the robustness of those estimates.

As a result of this work we determined that faster close had not had a material impact upon the financial statements.

Judgements

We have considered the level of prudence within key judgements in your 2017/18 financial statements and accounting estimates. We have set out our view below across the following range of judgements.

Level of prudence

0	1	2	3	4	5	6
Audit Difference	Cautious		Balanced		Optimistic	Audit Difference
	Acceptable Range					

Subjective area	2017/18	2016/17	Commentary
Provisions (excluding Business Rates)	2	2	We consider the provisions and related disclosures to be proportionate.
Business Rates provision	4	5	Since 2013/14 the Authority has been responsible for a proportion of successful rateable value appeals. The Authority uses a fixed percentage of outstanding appeals in accounting for the potential liability. We recommend that the Authority should review its Non Domestic Rates (NDR) provisions in line with applicable accounting guidance i.e. review its NDR provisions and incorporate historical appeals success rates to fairly reflect local information.
Property Plant & Equipment: HRA Assets	3	4	The Authority continues its use of the beacon methodology in line with the DCLG's Stock Valuation for Resource Accounting published in November 2016. The Authority has utilised its in house valuation team to provide valuation estimates. We have reviewed the instructions provided and deem that the valuation exercise is in line with the instructions. We have also assessed the valuation against local House Price Index movements, including reviewing indices applied to those assets not subject to a full valuation exercise in year.
Property Plant & Equipment: Other Land Buildings	3	4	The Authority has made significant strides in the current year in ensuring its valuation approach and considerations were wide- ranging. This included consideration of any movements in build costs and other indices that might indicate a wider impact upon overall valuation of the assets held. We are currently completing our work in this area, and will be able to provide an update to the meeting.

Judgements (cont.)

Subjective area	2017/18	2016/17	Commentary
Valuation of pension assets and liabilities	3	3	The Authority continues to use Mercer to provide actuarial valuations in relation to the assets and liabilities recognised as a result of participation in the Local Government Pension Scheme. Due to the overall value of the pension assets and liabilities, small movements in the assumptions can have a significant impact on the overall valuation. NOTE –at the time of writing we were awaiting further detail as to the level of estimation within the pension assets valuation due to estimated returns in the final quarter. The actual assumptions adopted by the actuary fell within our expected ranges as set our below:

Assumption	Actuary Value	KPMG Range	Assessment
Discount rate	2.60%	2.20 - 2.60%	1
Pension increase rate	2.20%	1.90 - 2.50%	2
Salary growth	CPI + 1.4%	CPI + 0.0% to + 2.0%	3
Life expectancy			4
Current male / female	22.7 / 25.4	22.1 / 23.9	
Future male / female	25.0 / 28.0	23.5 / 25.4	

Proposed opinion and audit differences

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's 2017/18 financial statements following approval of the Statement of Accounts by the Audit Committee on 30 July 2018.

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 4) for this year's audit was set at £4.5 million. Audit differences below £230,000 are not considered significant.

Our audit identified a total of two significant audit differences, which we set out in Appendix 3. It is our understanding that these will be adjusted in the final version of 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 2017/18 ('the Code'). We have set out details of significant presentational adjustments in Appendix 3. We understand that the Authority will be addressing these where significant.

Annual governance statement

We have reviewed the Authority's 2017/18 Annual Governance Statement and confirmed that it is not misleading and is consistent with other information we are aware of from our audit of the financial statements.

Narrative report

We have reviewed the Authority's 2017/18 narrative report and have confirmed that it is consistent with the financial statements and our understanding of the Authority.

Annual report

We have reviewed the Authority's 2017/18 Annual Report and can confirm it is not inconsistent with the financial information contained in the audited financial statements.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's 2017/18 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 2018, we confirm that there were no relationships between KPMG LLP and Blackpool, 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 5 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 2017/18 financial statements.

Section three

Value for Money Arrangements

Specific value for money risk areas

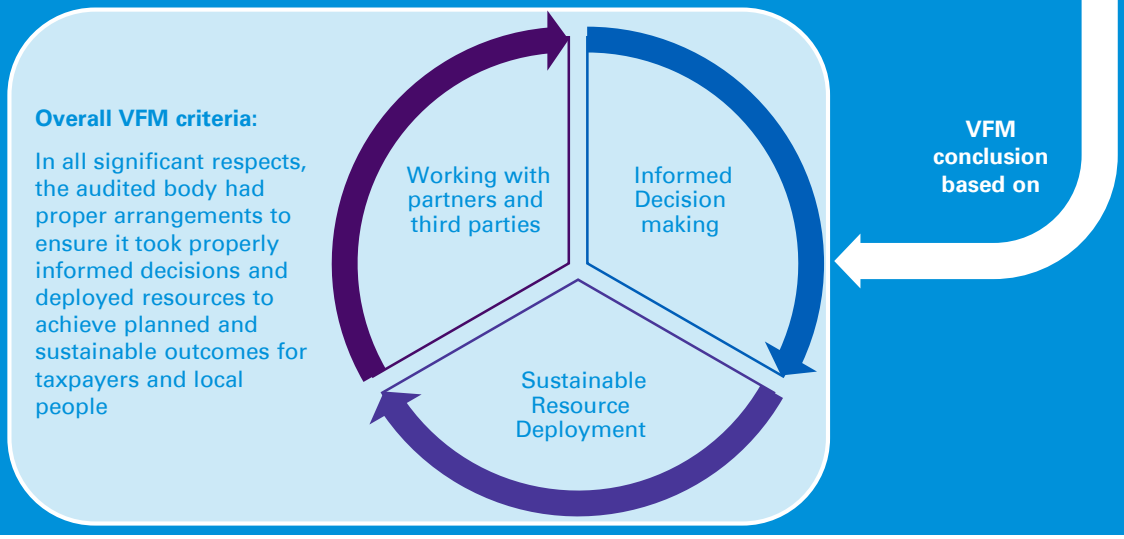
Our 2017/18 VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

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.

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.'

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



Specific value for money risk areas (cont.)

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.

Applicability of VFM Risks to VFM sub-criteria

VFM Risk	Informed decision making	Sustainable resource deployment	Working with partner and third parties
Delivery of budgets			
Children's Services			

In consideration of the above, we have concluded that in 2017/18, 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.

Specific value for money risk areas (cont.)

As communicated to you in our *External Audit Plan 2017/18*, and as updated throughout the audit, we have identified two risks requiring specific audit attention and procedures to address the likelihood that proper arrangements are not in place to deliver value for money.

In most 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.

We have provided below a summary of the risk areas identified, our work undertaken and the conclusions reached.

We have highlighted those risks which were identified after we presented our *External Audit Plan 2017/18* in May 2018.

Risk:

Delivery of budgets

The Authority identified the need to make savings of £18.7 million in 2017/18 to be met through cut to some services, a Council Tax increase of 4.99%, staff redundancies and the elimination of vacant posts.

The Authority's budget for 2018/19 was approved at the Council meeting in February 2018. It recognised the need for £5.5 million in savings after allowing for the full 5.99% increase in Council Tax (which included the 3% Adult Social Care Precept).

The approved budget includes individual proposals to support the delivery of the overall savings requirement. Further savings will be required over the period to principally address future reductions to local authority funding alongside service cost and demand pressures. As a result, the need for savings will continue to have a significant impact on the Authority's financial resilience.

Our assessment and work undertaken:

Like most of local government, the Authority faces a challenging future driven by funding reductions and an increase in demand for services, particularly given recent overspends in Children's Services as identified on page 22.

The Council managed to meet its savings plans for 2017/18, recovering the mid-year deficit, due to the work that had been ongoing from the CIPFA-led peer review programme, which had supported management in identifying potential service efficiencies and financial savings.

Savings of £5.5 million were required to be found when the budget was set for 2018/19. Of this, approximately £3.3 million will be realised through income generation, primarily returns from the investment fund established by the Authority to support economic activity in Blackpool. Critical challenge of staff vacancies and service reorganisation, leading to recurring financial savings from redundancy, will also help to meet the savings target in the current year.

For 2019/20, an £8.4 million gap currently exists and management continue to work with members to identify priorities and thus opportunities for further savings or income generation opportunities.

Specific value for money risk areas (cont.)

Significant VFM Risks (cont.)

Risk:

Children's Services

Children's Services represents the biggest budgetary pressure on the Authority in 2017/18, with a £3.2 million forecast year-end overspend as at month 10, 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 continues to tackle the challenges faced in the local area, to ensure that it works effectively with partners to deliver a high quality service that is appropriate to every child's individual need. 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.

Our assessment and work undertaken:

The Children's Services Directorate has made significant progress during the year.

From a financial management perspective, the Directorate now understands the costs for each child that is looked after within Blackpool; an annual budget is set based on their current situation and any anticipated changes. Where changes in spending occur, i.e. because a placement has changed, this is identified as an over or underspend, and where trends in such changes are identified, such as a number of children having foster placements breakdown, work is then done to identify the cause of these failures to ensure they do not recur.

Benchmarking has bene undertaken with other local authorities through CIPFA. This identifies that the average cost per placement for the Authority is consistent with the average, and patterns of looked after children by type of support, and by age, are again consistent with the average. The element that remains a significant challenge to the Authority is the number of looked after children, which is significantly higher proportionally than any other local authority in the country.

Management are also taking measures to reduce the cost of placements, by continuing to recruit foster parents directly, rather than the more expensive of using agency placements. Work is also being done to assess the care home provision within Blackpool, to use existing resources more effectively, and to create additional capacity which could generate financial savings in the longer term.

Appendices

Appendix 1:

Key issues and recommendations

Our audit work on the Authority's 2017/18 financial statements has not identified any audit issues that we wish to bring to your attention.

Priority Rating for Recommendations

1	**Priority One:** 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. Recommendations Raised: 0	2	**Priority Two:** 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. Recommendations Raised: 0	3	**Priority Three:** Issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them. Recommendations Raised: 0

Appendix 2:

Follow-up of prior year recommendations

The Authority has not implemented all of the recommendations raised through our previous audit work.

We re-iterate the importance of the outstanding recommendations and recommend that these are implemented as a matter of urgency.

This appendix summarises the progress made to implement the recommendations identified in *SA 260 Report 2016/17* and outstanding recommendations from previous audit years and re-iterates any recommendations still outstanding.

Number of recommendations that were	
Included in the original report	5
Implemented in year or superseded	4
Outstanding at the time of our interim audit	1

No.	Risk	Issue & Recommendation	Management Response	Status as at July 2018
1	2	**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. **Risk** 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.	**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. **Responsible Officer** Karen Tomlinson **Implementation Deadline** 31 March 2018	**Implemented** The Authority had undertaken valuation of heritage assets as at 31st March 2018. We reviewed the valuation assumptions as part of our audit work.

Appendix 2:

Follow-up of prior year recommendations (cont)

No.	Risk	Issue & Recommendation	Management Response	Status as at July 2018
2	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. **Risk** 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 by 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.	**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.	**Implemented** We reviewed the cash reconciliation between Orchard and the general ledger and found this to be reviewed on a weekly basis with sign off from Head of Finance.

Appendix 2:

Follow-up of prior year recommendations (cont)

No.	Risk	Issue & Recommendation	Management Response	Status as at July 2018
3	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. **Risk** 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, super user access rights should be regularly reviewed and the number of super users 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.	**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. **Responsible Officer** Phil Redmond/ Tony Hoover **Implementation Deadline** 31 March 2018	**Partially implemented** The superuser access listing was reviewed with two members of staff removed from the listing. Regular reviews of super users will be undertaken once the Team is fully resourced.

Appendix 2:

Follow-up of prior year recommendations (cont)

No.	Risk	Issue & Recommendation	Management Response	Status as at July 2018
4	3	**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. **Risk** 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.	**Accepted** Formal procedure and records to be brought in and retained for any future upgrades. **Owner** Karen Tomlinson **Deadline** 31 March 2018	**Not Implemented**
5	3	**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. **Risk** 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.	**Accepted** Santander to be contacted and account closed. **Owner** Karen Tomlinson **Deadline** 31 October 2017	**Implemented** Bank confirmation received from Santander confirming that the bank account was closed on 16 October 2017.

Appendix 3:

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 2017/18 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

The following table sets out the significant audit differences identified during our audit of the Authority's financial statements for the year ended 31 March 2018. It is our understanding that these will be adjusted. However, we have not yet received a revised set of financial statements to confirm this.

Table 1: Adjusted audit differences (£'000)

No.	Income and expenditure statement	Movement in reserves statement	Balance Sheet	Basis of audit difference
1	-	-	Dr Capital Adjustment Account 2,909 Cr Major revenue repairs reserve (2,909)	Client mis-coding meant that £2.9 million was posted to the major repairs reserve in usable reserves rather than the Capital Adjustment Account which is included within unusable reserves.
	-	**-**	**-**	**Total impact of adjustments**

Pension prepayment adjustment

A payment of £36.7 million was made to the Lancashire Pension Fund as a 'prepayment' for future services and deficit recovery for 2017/18 to 2019/20.

A sum of £12.3 million was recognised as expenditure un the year in 2017/18, with the balance held as a prepayment in the balance sheet.

The whole expense should be recognised in the year it is paid, but reserve transfers can reduce the impact on the General Fund balance as at 31 March 2018.

We are currently awaiting an updated IAS 19 statement from the actuary for the Lancashire Pension Fund to confirm the value of the changes, which will impact multiple elements of the financial statements.

Unadjusted audit differences

We have not identified any audit differences that have not been adjusted for.

Audit differences (cont.)

Presentational adjustments

We identified a number of presentational adjustments required to ensure that the Authority's financial statements for the year ending 31 March 2018 are fully compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 ('the Code').

Whilst the majority of these adjustments were not significant, we identified a number of adjustments of a more significant nature and details of these are provided in the following table.

It is our understanding that these will be adjusted. However, we have not yet received a revised set of financial statements to confirm this.

Presentational adjustments

No.	Basis of audit difference
1	Collection Fund –note 3 NNDR disclosure No reference to the business rate rateable value.
2	Some minor narrative errors to the pensions note as a result of not updating prior period figures.
3	A small number of minor casting/consistency errors as a result of roundings.
4	Accounting policy review – Some small amounts of additional detail were required to fully meet the requirements of the Code.

Appendix 4:

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 2017/18*, presented to you in May 2018.

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, an individual difference is considered to be clearly trivial if it is less than £230,000 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.

Appendix 5:

Required communications with the Audit Committee

We have provided below at-a-glance summary of the information we are required to report to you in writing by International Accounting Standards.

Required Communication	Commentary
Our draft management representation letter	We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2018.
Adjusted audit differences	We have identified two adjusted audit differences although the precise value of the second adjustment has yet to be determined. See page 29 for further details.
Unadjusted audit differences	We did not find any audit differences which have not been adjusted for.
Related parties	There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Audit Committee	There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
Control deficiencies	We have set out our assessment of the Authority's internal control environment, and we have not identified any significant deficiencies.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	We identified no actual or suspected fraud involving the Authority's Member or officers with significant roles in internal control, or where the fraud resulted in a material misstatement in the financial statements.
Significant difficulties	No significant difficulties were encountered during the audit.
Modifications to auditor's report	There are no modifications to our audit report.
Disagreements with management or scope limitations	The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.

Appendix 5:

Required communications with the Audit Committee (cont.)

Required Communication	Commentary
Other information	No material inconsistencies were identified related to other information in the Narrative Report or Annual Governance Statement. These reports were found to be fair, balanced and comprehensive, and compliant with applicable requirements.
Our declaration of independence and any breaches of independence	No matters to report. The engagement team and others in the firm, as appropriate, the firm and, when applicable, KPMG member firms have complied with relevant ethical requirements regarding independence. See Appendix 6 for further details.
Accounting practices	Over the course of our audit, we have evaluated the appropriateness of the Authority's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate. We have set out our view of the assumptions used in valuing pension assets and liabilities at page 15.
Significant matters discussed or subject to correspondence with management	There were no significant matters arising from the audit which were discussed, or subject to correspondence, with management

Appendix 6:

Declaration of independence

ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF BLACKPOOL COUNCIL

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code of Audit Practice, the provisions of Public Sector Audit Appointments Limited's ('PSAA's') Terms of Appointment relating to independence, the requirements of the FRC Ethical Standard and the requirements of Auditor Guidance Note 1 – General Guidance Supporting Local Audit (AGN01) issued by the National Audit Office ('NAO') on behalf of the Comptroller and Auditor General.

This Statement is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

— General procedures to safeguard independence and objectivity;

— Independence and objectivity considerations relating to the provision of non-audit services; and

— Independence and objectivity considerations relating to other matters.

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 partners and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

— Instilling professional values

— Communications

— Internal accountability

— Risk management

— Independent reviews.

We are satisfied that our general procedures support our independence and objectivity.

Declaration of independence (cont.)

Independence and objectivity considerations relating to the provision of non-audit services

Summary of fees

We have considered the fees charged by us to the Authority for professional services provided by us during the reporting period. We have detailed the fees charged by us to the Authority for significant professional services provided by us during the reporting period in Appendix 7, as well as the amounts of any future services which have been contracted or where a written proposal has been submitted. Total fees charged by us for the period ended 31 March 2018 can be analysed as follows:

	2017/18	2016/17
	£	£
Audit of the Authority	110,153	110,153
Total audit services	**110,153**	**110,153**
Audit related assurance services	6,990	5,845
Mandatory assurance services	10,112	13,658
Total Non Audit Services	**17,102**	**19,503**

We are required by AGN 01 to limit the proportion of fees charged for non-audit services (excluding mandatory assurance services) to 70% of the total fee for all audit work carried out in respect of the Authority under the Code of Audit Practice for the year. The ratio of non-audit fees to audit fees for the year was 0.06:1. We do not consider that the total of non-audit fees creates a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out table on the following page.

Declaration of independence (cont.)

Analysis of non-audit services for the year ended 31 March 2018:

Description of scope of services	Principal threats to independence and Safeguards applied	Basis of fee	Value of services delivered in the year ended 31 March 2018 £	Value of services committed but not yet delivered £
Audit-related assurance services				
Grant Certification — Teachers Pensions Return — Pooling of Housing Capital Receipts Return — Homes England Development Grant	The nature of these audit-related services is to provide independent assurance on each of these returns. As such we do not consider them to create any independence threats.	Fixed Fee	0	6,990
Mandatory assurance services				
Grant Certification — Housing Benefit Subsidy Return	The nature of this mandatory assurance service is to provide independent assurance on each of the returns. As such we do not consider it to create any independence threats.	Fixed Fee	0	10,112

Confirmation of audit independence

We confirm that as of the date of this report, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the partner and audit staff is not impaired.

This report is intended solely for the information of the Audit Committee of the Authority and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

KPMG LLP

Appendix 7:

Audit fees

As communicated to you in our *External Audit Plan 2017/18*, our scale fee for the audit is £110,153 plus VAT, which is the same as last year.

Our work on the certification of the Authority's Housing Benefit Subsidy return is not yet complete. The planned scale fee for this is £10,112 plus VAT (£13,658 in 2016/17). Planned fees for other grants and claims which do not fall under the PSAA arrangements amount to £6,990 plus VAT (£5,845 in 2016/17), see further details below.

Component of the audit	2017/18 Planned Fee	2016/17 Actual Fee
	£	£
Accounts opinion and value for money work		
PSAA Scale fee (Blackpool Council)	110,153	110,153
Total audit services	**110,153**	**110,153**
Mandatory assurance services		
Housing Benefits Certification	10,112	13,658
Total mandatory assurance services	**10,112**	**13,658**
Audit-related assurance services		
Teachers' Pension Return	3,090	3,045
Pooling of Housing Capital Receipts	3,000	2,800
Homes England Development Grant	900	-
Total audit-related assurance services	**6,990**	**5,845**
Total non-audit services	**17,102**	**19,503**
Grand total fees for the Authority	**127,255**	**129,656**

All fees quoted are exclusive of VAT.

The key contacts in relation to our audit are:

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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).

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. 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 3HZ.

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