APPENDIX 7(a)

Deloitte.

Blackpool Council

# Blackpool Council

## Update report to the Audit Committee on the audit for the year ended 31 March 2020

November 2020

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# Partner introduction

## The key messages in this report

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

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

I have pleasure in presenting our update report to the Audit Committee of Blackpool Council for the 2020 audit. The scope of our audit was set out within our planning report presented to the committee in February 2020.

**Status of the audit**

The following principal matters are currently outstanding:

- receipt of supporting documentation for a number of areas including grant expenditure, capital grants, payables, accruals and provisions testing.
- completion of pensions testing including receipt of reports from Pension Fund auditors and our internal pension specialists;
- receipt of information from component auditors in relation to group accounts;
- completion of management override of control and Value for Money work;
- resolution of queries in relation to the PFI balances and report from our specialist;
- completion of disclosures testing;
- resolution of outstanding queries on PPE testing;
- receipt of updated financial statements;
- completion of internal quality control review procedures;
- receipt of signed management representation letter; and
- our review of events since 31 March 2019 through to signing.

**Update on progress**

The significant audit risks identified for the current year were:

- Completeness of accrued expenditure – there is an inherent fraud risk associated with the under recording of expenditure in order for the Council to report a more favourable year-end position. We specifically focus this on expenditure accruals;
- Property valuations – valuations are inherently judgemental and include a number of assumptions.
- Pension liabilities – there is significant judgement in relation to the assumptions and methodology used in the valuation of the Council's pension obligation.
- Management override of controls – auditing standards presume there is a risk that the accounts may be fraudulently misstated by management overriding controls. Key areas of focus are: bias in the preparation of accounting estimates; inappropriate journal entries; and transactions which have no economic substance.

We have considered the impact of the Covid-19 pandemic on our work – we include details on pages 9 and 10. Further details are included in our work on property valuations, where management's expert identified a material valuation uncertainty. This is common to 31 March 2020 valuations in the sector. This wording is reflected in the emphasis of matter in our draft auditor's report. We did not identify any new financial statement or value for money significant risks as a result of the impact of the pandemic.

# Partner introduction

## The key messages in this report (continued)

**Update on progress (continued)**

As well as the significant risks identified above, we have identified a number of other audit matters for which the work is currently still in progress:

**Capital accounting**

- Since the introduction of the revaluation reserve the Council has not retained details of the assets which have been impaired through the Comprehensive Income and Expenditure Statement (CIES) and therefore the full value of any subsequent upward valuation has been charged to the revaluation reserve rather than having the appropriate amount of the upward revaluation reverse the previous impairment through the CIES. The Council is currently producing information to support these movements.
- As part of the valuation process, in the current year a small number of voluntary aided schools were identified which had been retained on the balance sheet following the previous process to remove them, that was undertaken in 2015/16. In the draft financial statements, the Council had initially removed the value of the assets from the balance sheet but we have not been able to obtain sufficient evidence to support the removal of the assets, as there have been no responses received as yet in relation to queries raised with the relevant Diocese.
- Valuations were undertaken in year for Foxhall Village - Tyldesley/Rigby Road Redevelopment, as the property developer went into administration during the year, which raised questions around which party had control of the assets associated with the different phases of the development as at year end, and therefore what transactions needed to be recognised with the Council financial statements. Resolution of the issue required a number of discussions with the relevant members of the Council's legal team to understand the specific legal position as at year end.
- During the year the Council recognised 'The Tramsheds' asset on its balance sheet as a finance lease. The leases for the arrangement had been signed in November 2018, but the asset was not recorded on the Council's balance sheet as management considered that it was appropriate for LMOL to recognise the asset on its balance sheet as a finance lease. From our review of the leases, we consider that the asset should have been recognised on the Council's balance sheet in the prior year and we are in the process of finalising the prior period adjustment that will need to be recognised.
- In the draft accounts, impairments were recognised in relation to the assets held under finance leases, being 'The Tramsheds' and 'Ribble House'. As the assets are held under finance leases, there are additional valuation considerations which were not factored into the initial work and it has been subsequently identified that the impairments should be reversed and an upward revaluation recognised.
- The 'Promenade, Tramway' asset was revalued in year as part of the rolling valuation programme. Following our review of the revaluation, it was determined that the valuation included assets which were also separately recognised within Infrastructure assets and so "double counted" in the Council's accounts. A new valuation has been undertaken which has shown that the difference is material and also affects the prior year, and therefore a prior period adjustment will be required. Management are also undertaking a wider piece of work to confirm that there are no other similar issues within the valuations that have been undertaken.

# Partner introduction

## The key messages in this report (continued)

| | |
|---|---|
| **Update on progress (continued)** | **Capital accounting (continued)**<br>• In the draft accounts, a transfer of £19.9m was made between Property, Plant and Equipment and Investment Property. Following testing of a sample of the assets transferred, it was determined that they did not meet the definition of Investment Property and management have undertaken a review of all the assets transferred to confirm the correct categorisation and we are in the process of agreeing the required adjustment with the Council.<br>• In November 2019, the Council purchased the Houndshill Shopping Centre. As part of our planning for the audit, a number of discussions were held with the finance and estates team to ensure that the property was valued by appropriately qualified retail valuation specialists given the impact due to Covid-19 on retail and no issues have been identified from our work as part of the final audit visit. |
| | **Subsidiary valuations**<br>• Within the accounts, the Council holds investments in a number of its subsidiaries at fair value. In the current year, we have involved specialists from our valuations team to undertake a review of these valuations, including an assessment of the adjustments made to the valuations to take account of the impact of Covid-19. Once we have received their final report we will discuss the impact and any required adjustments with the Council. |
| | **Long term debtors**<br>• Blackpool Council has provided loans to a number of its subsidiaries and also under the Business Loan Fund to private companies. Due to the potential detrimental impact of Covid-19 on a wide range of companies within the economy, we have challenged management in terms of their assessment of the recoverability of the outstanding loans and we are awaiting the detailed documentation which supports the Council's position. |
| | **Blackpool Transport Services pension surplus transfer**<br>• During the year, Blackpool Council entered into a pooling arrangement with Blackpool Transport Services in relation to their membership of the Lancashire County Council pension fund. We have reviewed the available documentation in relation to the transaction and are in the process of confirming the required adjustments to the accounts with management. |
| | **Financial instruments fair values**<br>• Within the accounts, the Council is required under the Code to make fair value disclosures in relation to a number of financial instruments. In the current year we have used our financial instruments specialists to support our work and once we receive their final report we will confirm any required changes with management. |
| | Due to the significant amounts of work involved in addressing the matters identified above, both in terms of the additional work required to be undertaken by the Council and the additional testing from an audit perspective, we will not be in a position to sign the accounts following the 30 November Audit Committee. |

# Partner introduction

## The key messages in this report (continued)

| | |
|---|---|
| **Update on progress (continued)** | • Our audit is ongoing but based on the current status of our audit work, we envisage issuing an unmodified audit opinion with an Emphasis of Matter in relation to your disclosures on the material valuation uncertainty, and a modified opinion in respect of the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources. |
| **Financial sustainability and Value for Money** | The Council reported a deficit on the provision of services of £66.1m. As at 31 March 2020, the Council had £69m of usable reserves.<br>• The 2020/21 gap per the Council's original budget was predicted to be £19.7m. Of the required savings, £16.9m are forecast to be achieved by year end, but we expect the Covid-19 pandemic to have significant impacts.<br>• As discussed on pages 17-20, we identified significant risks around the Council's financial sustainability and the recommendations from the prior year Ofsted report.<br>**Conclusion**<br>• We anticipate based on our work to date that we will modify our opinion in respect of the Council's arrangements for securing the economy, efficiency and effectiveness of the use of resources. |
| **Narrative Report & Annual Governance Statement** | • We have reviewed the Council's Annual Report & Annual Governance Statement to consider whether it is misleading or inconsistent with other information known to us from our audit work.<br>• The Annual Governance Statement complies with the Delivering Good Governance guidance issued by CIPFA/SOLACE.<br>• We have suggested a number of minor changes to management for consideration. |
| **Duties as public auditor** | • We did not receive any queries or objections from local electors this year.<br>• We have not identified any matters that would require us to issue a public interest report. We have not had to exercise any other audit powers under the Local Audit and Accountability Act 2014. |
| **Whole of Government Accounts** | • We are required to report our overall audit opinion and key issues from our audit to the National Audit Office following completion of the audit. We are required to perform testing on the Council's WGA submission, checking its consistency to the audited financial statements and reporting our findings to the National Audit Office (together with our audit opinion and key issues from our audit. |

Nicola Wright
Audit Partner

# Our audit explained

**Final audit report**

We expect to issue an unmodified audit report and modified value for money conclusion.

We expect to include an "emphasis of matter" paragraph in relation to material uncertainties around the property valuation.

**Key developments in your business**

The Council will continue to see a significant impact on levels of expenditure and income due to the Covid-19 pandemic.

**Conclude on significant risk areas**

We draw to the Audit Committee's attention our status on the significant audit risks. See page 11 to 16.


**Materiality**

Group materiality of £10.8m (PY: £10m) (Council only £9.9m (PY: £9.3m)) and group performance materiality of £7.5m (PY: £7m) (Council only £6.9m (PY £6.5m)) has been based on the benchmark of gross expenditure and is a small increase from what we reported in our planning paper due to the year end outturn.

We have used these as the basis for our scoping exercise and initial risk assessment.

**Significant risks**

Our risk assessment process is a continuous cycle throughout the year. Page 11 provides a summary of our risk assessment of your significant risks.

**Quality and Independence**

We confirm we are independent of Blackpool Council. We take our independence and the quality of the audit work we perform very seriously. Audit quality is our number one priority.

**Scope of the audit**

We undertake an audit on the group financial statements for the year ended 31 March 2020 of Blackpool Council.

## Timeline 2019/20

**November 2019 – February 2020**
Meetings with management and other staff to develop our understanding of the council's processes and controls.

**12 March 2020**
Presented planning paper to the Audit Committee

**31 March 2020**
Year end

**July-November 2020**
Review of draft accounts, testing of significant risk and performance of substantive testing of results.

**30 November 2020**
Audit Committee meeting

Accounts sign off

# Scope of work and approach

## We have three key areas of responsibility under the Audit Code

### Financial statements

We have conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") as adopted by the UK Auditing Practices Board ("APB") and Code of Audit Practice issued by the National Audit Office ("NAO"). The Council has prepared its accounts under the Code of Practice on Local Authority Accounting ("the Code") issued by CIPFA and LASAAC.

We are also required to issue a separate assurance report to the NAO on the Council's separate return required for the purposes of its audit of the Whole of Government Accounts. This has a deadline of the 4 December, which due to the delay in the completion of the audit of the Council's accounts we will not meet. We will submit our assurance statements as soon as possible following the signing of the Council's accounts.

### Annual Governance Statement

We have considered the completeness of the disclosures in the Annual Governance Statement in meeting the relevant requirements and identified any inconsistencies between the disclosures and the information that we are aware of from our work on the financial statements and other work.

As part of our work, we have reviewed the narrative report and compared with other available information to ensure there are no material inconsistencies. We have also reviewed any reports from other relevant regulatory bodies and any related action plans developed by the Council.

### Value for Money conclusion

We are required to provide a conclusion on whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

To perform this work, we have:

- planned our work based on consideration of the significant risks of giving a wrong conclusion; and
- carried out as much work as is appropriate to enable us to give a safe conclusion on the arrangements to secure VFM.

Our work therefore included a detailed risk assessment based on the risk factors identified in the course of our audit. We identified significant risks based on our risk assessment in relation to financial sustainability and on Children's Services based on the Ofsted inspection findings, see pages 15-18.

# Covid-19 pandemic

## Impact on the statement of accounts and audit

Within our audit plan, we highlighted a number of potential impacts on the Council's statement of accounts and our audit due to the practical challenges and complications of the pandemic.

| Area | Potential impact on annual report and financial statements | Audit response |
|---|---|---|
| **Impact on property, plant and equipment** | The Royal Institute of Chartered Surveyors has issued a practice alert, as a result of which valuers have identified a material valuation uncertainty at 31 March 2020 for most types of property valuation. This has impacted the Council and has required specific disclosure in the financial statements. Consequently, this has resulted in an Emphasis of Matter in our audit report. | The Council has considered its approach to the measurement of property, plant and equipment (PPE). Where property held at current value is based on market valuations, the Council considered with their valuers the impact that Covid-19 has had on current value. The Council also considered whether there are any indications of impairment of assets requiring adjustment at 31 March 2020. The material uncertainty is disclosed in the Statement of Accounts and leads to an Emphasis of Matter in our audit opinion. |
| **Valuation of commercial or investment properties and financial instruments** | Following the Covid-19 pandemic, the fair value measurements for financial instruments and investment properties held by the Council needed to be reviewed against the conditions and assumptions at the measurement date. This presents some difficulties because of the volatility of the market at the measurement date and the potential for there to be a lack of reliable observable inputs. This required additional consideration in our work on year-end valuations. | The material uncertainty noted above also includes Investment Properties.<br><br>We have involved our financial instrument specialists in our audit of the financial instruments balances and disclosures. |
| **Impact on pension fund investment measurement** | As a result of the Covid-19 pandemic pension, Fund investments have been subject to volatility. | We have maintained regular communication with the external pension fund auditors to ensure that we would be aware of relevant issues. We are still awaiting the formal response from the pension fund auditors. |
| **Expected credit losses** | The Council has considered the provision for credit losses for receivables, including for expected credit losses for assets accounted for under IFRS 9. | We have challenged managements assessment of the impact that the Covid-19 pandemic has had on the recoverability of outstanding debtors, this work is currently on going. |

# COVID-19 pandemic (continued)

## Impact on the statement of accounts and audit

| Area | Potential impact on annual report and financial statements | Audit response |
|---|---|---|
| **Covid-19 related income received pre year end** | Covid-19 LA Support grant: This was the first tranche of £1.6bn passed out to Councils by MCHLG on 27 March 2020. Blackpool Council received £6m. The balance of this grant has been placed in earmarked revenue reserves at year-end to be used to fund income losses and increased expenditure in 2020/21. | We note that, after discussion and reference to guidance, this grant has been treated correctly in the updated statement of accounts.<br><br>The remaining Covid-19 related income receipts received after the year end will be considered as part of the 2020/21 audit. |
| **Narrative and other reporting issues** | The following areas need to be considered by local authorities, having being impacted on by the COVID-19 pandemic.<br>• Narrative reporting as well as the usual reporting requirements will need to cover the effects of the pandemic on services, operations, performance, strategic direction, resources and financial sustainability.<br>• Reporting judgements and estimation uncertainty: The Council will need to report the impact on material transactions including decisions made on the measurements of assets and liabilities. | We have raised a number of points with management on how the current disclosure in relation to Covid-19 could be improved and will review the changes made once we received the updated financial statements. |

# Significant risks

## Dashboard

| Risk | Material | Fraud risk | Planned approach to controls | Controls testing conclusion | Consistency of judgements with Deloitte's expectations | Slide no. |
|---|---|---|---|---|---|---|
| Completeness of accrued expenditure | ✓ | ✓ | D+I | Satisfactory | TBC | 12 |
| Property valuations | ✓ | ✗ | D+I | Satisfactory | TBC | 13 |
| Pension Liabilities | ✓ | ✗ | D+I | Satisfactory | TBC | 15 |
| Management override of controls | ✓ | ✓ | D+I | Satisfactory | TBC | 16 |

We also identified the following significant risks in relation to our Value for Money opinion:

- Financial sustainability
- Ofsted findings

See pages 17-20.

Overly prudent, likely to lead to future credit

Overly optimistic, likely to lead to future debit.

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

# Significant risks

## Risk 1 – Completeness of accrued expenditure

| | |
|---|---|
| **Risk identified** | Under UK auditing standards, there is a presumed risk of revenue recognition due to fraud. We have rebutted this risk, and instead believe that a fraud risk lies with the completeness of expenditure (as well as management override of controls as detailed on page 14). In the current year we have identified the risk as relating specifically to year end accruals.<br><br>There is an inherent fraud risk associated with the under recording of expenditure in order for a Council to report a more favourable year-end position.<br><br>For Blackpool Council there is therefore a specific risk that it may materially misstate its expenditure through the understatement of accruals in an attempt to report a more favourable year end position. |
| **Our response** | Our work in this area included the following:<br>• We have tested the design and implementation of the key controls in place in relation to recording completeness of accruals;<br>• We are in the process of completing focused testing in relation to the completeness of accruals through testing of post-year end unprocessed invoices and payments made. |
| **Conclusion** | From our work to date we have not identified any errors in our testing of completeness of accruals, and have noted no issues with management's judgements in relation to this balance. We will provide a verbal update to the committee on our progress. |

# Significant risks

## Risk 2 – Property Valuations

| | |
|---|---|
| **Risk identified** | The Council held £366.1m of property assets as at 31 March 2019 which increased to £390.2m as at 31 March 2020. The movement was due to additions of £63m, offset by revaluation movements of £14.3m, disposals and transfers of £19.5m and depreciation of £7.5m.<br><br>The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date.<br><br>The Council has adopted a rolling revaluation model which sees all land and buildings revalued over a four year cycle. As a result of this, however, individual assets may not be revalued for three years and any changes to the factors used in the valuation process could materially affect the value of the Council's assets as at year end.<br><br>There is therefore a risk that the value of property assets materially differ from the year end fair value, particularly given that valuations are inherently judgemental and include a number of assumptions. |
| **Our response** | Our work in this area included the following:<br>• We have tested the design and implementation of key controls in place around the valuation of property;<br>• We have reviewed the revaluations performed in the year, and have assessed whether they have been performed in a reasonable manner, on a timely basis, by suitably qualified individuals and using appropriate inputs;<br>• We have reviewed the approach used by the Council to assess the risk that assets not subject to revaluation are materially misstated;<br>• We have used our valuation specialists, Deloitte Real Estate, to support our review and challenge the appropriateness of the Council's assumptions on its assets values; and<br>• We have tested a sample of revalued assets and re-performed the calculation assessing whether the movement has been recorded through the correct line of the accounts. |
| **Conclusion** | From our work to date we have identified a number of adjustments in relation to the value at which the Council is currently holdings various assets. These have been documented at page 4.<br><br>This includes two prior period adjustments in the financial statements which impact on the Property, Plant and Equipment balance, one relates to the double counting of assets within 'Other land and buildings' and 'Infrastructure assets' and the other is in relation to the recognition of an asset under a finance lease. |

# Significant risks

## Risk 2 – Property Valuations: Material Uncertainty due to Covid-19

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|---|---|
| **Material Uncertainty due to Covid-19** | The Council's valuer has included disclosures in relation to Covid-19 in their report including the extracts below:<br>*"The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a "Global Pandemic" on 11 March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries. Market activity is being impacted in many sectors. As at the valuation date, we consider that we can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to COVID-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement. Our valuations are therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case."* |
| **Impact on Statement of Accounts** | The Council is required to disclose the existence of this material uncertainty in the statement of accounts. We have raised an recommendation that wording similar to what is currently included in note 14, an extract of which is included below, is included as a major source of estimation uncertainty within note 6:<br>*"The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a "Global Pandemic" on 11 March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries. Market activity is being impacted in many sectors. As at the 31st March valuation date, the valuers consider that they can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. The current response to COVID-19 means that they are faced with an unprecedented set of circumstances on which to base a judgement."* |
| **Impact on Audit Opinion** | An "emphasis of matter" is required to be included in our audit opinion to draw attention to management's disclosure, our proposed wording in the draft audit opinion is as follows:<br>*"We draw attention to note 6 and note 14, which describes the effects of the uncertainties created by the coronavirus (COVID-19) pandemic on the valuation of the Council's property portfolio. As noted by the Council's valuer, the pandemic has caused extensive disruptions to businesses and economic activities and the uncertainties created have increased the estimation uncertainty over the valuation of the property portfolio at the balance sheet date. Our opinion is not modified in respect of this matter."* |

# Significant risks

## Risk 3 – Pension Liabilities

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|---|---|
| **Risk identified** | The net pension liability is a material element of the Council's balance sheet. The valuation of the Scheme relies on a number of assumptions, including actuarial assumptions, and actuarial methodology which results in the Council's overall valuation. Furthermore there are financial and demographic assumptions used in the calculation of the Council's valuation – e.g. the discount rate, inflation rates, mortality rates. These assumptions should also reflect the profile of the Council's employees, and should be based on appropriate data.<br>There is a risk that the assumptions and methodology used in the valuation of the Council's pension obligation are not reasonable. This could have a material impact to the net pension liability accounted for in the financial statements.<br>In addition in the current year the Council has entering into an arrangement with Blackpool Transport Services in relation to its pension scheme, which will also impact on the pension liability recognised in the financial statements. |
| **Our response** | Our work in this area included the following:<br>• We have tested the design and implementation of the key controls in place in relation to review of the assumptions by the Council and over information sent to the Scheme actuary;<br>• We have evaluated the competency, objectivity and independence of the actuarial specialist;<br>• We are still to review the methodology and appropriateness of the assumptions used in the valuation, utilising a Deloitte Actuary to provide specialist assesment of the variables used; and<br>• We have reviewed the pension related disclosures in the financial accounts. |
| **Conclusion** | Our work in currently ongoing, from the work to date we have identified an adjustment relating to the accounting treatment of the Blackpool Transport Services pensions surplus. See page 4 for further details. |

# Significant risks

## Risk 4 – Management override of controls

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|---|---|
| **Risk identified** | In accordance with ISA 240 (UK) management override of controls is a significant risk due to fraud for all entities. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Council's controls for specific transactions.<br>The key judgements in the financial statements include those which we have selected to be the significant audit risks, (completeness of accrued expenditure, pensionand the Council's property valuations) and any one off and unusual transactions where management could show bias. These are inherently the areas in which management has the potential to use their judgment to influence the financial statements. |
| **Our response** | In considering the risk of management override, we plan to perform the following audit procedures that directly address this risk:<br>• We have tested the design and implementation of key controls in place around journal entries and key management estimates;<br>• We are in the process of testing a risk assessed sample of journals and select items. The journal entries have been selected using computer-assisted profiling based on characteristics which we consider to be of increased interest;<br>• We are in the process of reviewing accounting estimates on both an individual and cumulative level for biases that could result in material misstatements due to fraud; and,<br>• We have obtained an understanding of the business rationale of significant transactions that we became aware of that are outside of the normal course of business for the Council, or that otherwise appear to be unusual, given our understanding of the entity and its environment. |
| **Conclusion** | Our work in relation to this risk is ongoing but to date we have not identified any issues in relation to management override. We will provide a verbal update to the committee on our progress. |

# Significant risks

## VfM Risk 1 – Financial Sustainability

Under the National Audit Office's Code of Audit Practice, we are required to report whether, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The Code and supporting Auditor Guidance Notes require us to perform a risk assessment to identify any risks that have the potential to cause us to reach an inappropriate conclusion on the audited body's arrangements. We are required to carry out further work where we identify a significant risk - if we do not identify any significant risks, there is no requirement to carry out further work.

Based on our risk assessment and as set out in our plan we identified significant risks in relation to:

- Financial sustainability; and
- Ofsted findings.

| | |
|---|---|
| **Risk Identified** | The Council's budget for 2019/20 was approved at the Council meeting on 27 February 2019, setting a savings target of £9m. As at the end of October, the Council is forecasting to use £7.6m from reserves, mainly driven by the increased levels of demand in Children's Services. The need for savings continues to have a significant impact on the Council's financial sustainability.<br>The Council, like most of local government, faces significant challenges over the short and medium term due to the ongoing cuts in funding and increased demand for services. |
| **Our response** | Our work in this area included:<br>• Obtaining an understanding of the Council's Medium Term Financial Plan, budget for 2020/21 and transformation programmes.<br>• Discussions with the Director of Resources, and senior operational staff;<br>• Review of the Council's draft Narrative Report, Annual Governance Statement and Council papers and minutes;<br>• Consideration of issues identified in our financial statements audit work;<br>• Consideration of the Council's financial results, including delivery of savings, and the Council's plan; and<br>• Review of any reports from regulators e.g. Ofsted, issued in the year. |
| **Conclusion** | Our work is ongoing in relation to this risk and a recommendation has been raised. |

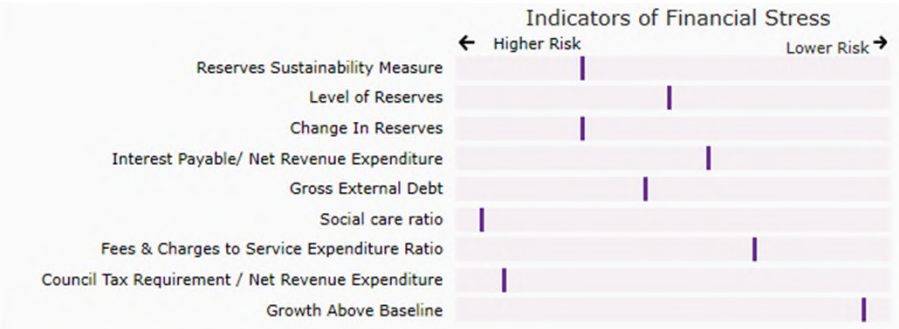
# Financial sustainability

## Covid-19 impact on 2020/21

Due to the timing of the Covid-19 pandemic, there was limited impact on the Council's income and expenditure for the financial year currently under audit. However, as the Committee will be well aware, it is having a significant impact on the Council's operations and performance in 2020/21. Based on the Ministry of Housing, Communities & Local Government ("MHCLG") *Local authority COVID-19 financial management information reporting data*, during August Councils were forecasting for 2020/21 to incur additional Covid-19 related expenditure of £5.24bn and to suffer a loss in income of £5.99bn. In relation to the cost increases, the largest expected pressure was in Adult Social Care which comprised £2.30bn of the total. For lost income, the three main components were Business rates (£1.61bn), Council Tax (£1.56bn) and Sales, fees and charges (£2.01bn). To date the government has allocated £4.6bn of emergency funding to local authorities but this still leaves a significant gap.

### Blackpool Council's position

At the start of the 2019/20 year, when compared to other unitary authorities in the CIPFA Financial Resilience Index, it was considered to be relatively high risk across in relation to social care and above average in relation to the level and change in reserves.




| Indicator | Min | Indicator Value | Max |
|---|---|---|---|
| Reserves Sustainability Measure | 2.28 | 23.67 | 100.00 |
| Level of Reserves | 10.06% | 34.68% | 141.30% |
| Change In Reserves | -56.80% | -11.25% | 138.05% |
| Interest Payable/ Net Revenue Expenditure | 0.00% | 4.82% | 22.32% |
| Gross External Debt | £1,265k | £322,274k | £1,164,389k |
| Social care ratio | 26.11% | 76.96% | 83.43% |
| Fees & Charges to Service Expenditure Ratio | 5.80% | 14.08% | 25.70% |
| Council Tax Requirement / Net Revenue Expenditure | 30.04% | 44.68% | 95.56% |
| Growth Above Baseline | -4.00% | -2.00% | 66.00% |

During the year to 31 March 2020, the Council had significant pressures in relation to Children's Services where there was an overspend of £12.9m. There was also delays in the delivery of the projects within the Growth and Prosperity services which reduced the expected income generation by £4.2m. The receipt of £6.1m of Covid-19 funding pre year end has meant that in total the General Fund and Earmarked reserves have ended up in line with their opening position.

For 2020/21, the Council's pre Covid-19 budget included a gap of £19.7m which after the delivery of the targeted level of savings will potentially require £2.3m to be funded from reserves. We are aware that the Council has considered various updates during the year to date, most recently at the November 2020 meeting of the Executive, which included an updated forecast of a net overspend of £8.9m. From tranches 1-4 of the Covid-19 funding from MHCLG, Blackpool has been allocated £16.3m.

# Financial sustainability (continued)

## Covid-19 impact on 2020/21

| Impact on 2020/21 audit |
| --- |
| As noted on page 17 we identified a significant value for money risk in relation to financial sustainability for the 2019/20 audit and we will provide an update once our work is complete.<br><br>Although the Council is in a relatively positive reserves position, Covid-19 nonetheless presents a significant financial challenge in 2020/21 and beyond. The Council's response will be an area we focus upon in our value for money work in 2020/21 and which we would expect to comment upon in our narrative commentary in the Auditor's Annual Report. |

# Significant risks

## VfM Risk 2 – Ofsted Findings

| | |
|---|---|
| **Risk identified** | In November and December 2018 Ofsted conducted an inspection of children's social care services. Following this inspection the Children's Services were given an overall rating in the report (January 2019) of 'Inadequate'.<br>The Inspectors acknowledged an improvement in leadership and a focus on improvement following the appointment of the new Director of Children's Services but concluded that this wasn't to the level to ensure safe and effective services for all children due to the level of the previous decline.<br>We have therefore identified a significant VfM risk over the delivery of the improvements required as a result of the Ofsted report.<br>A commissioner has been appointed following the inspection to oversee the process and ensure improvement.<br>We understand that, Ofsted undertook a monitoring visit in December 2019, they commented that the local authority has worked closely with a range of partners and there has been significant financial investment in the last 12 months but recruitment continues to be an issue. There are positive developments but they have not been fully embedded yet.<br>As a result we consider there to still be a significant VfM risk in relation to Children's Services for 2019/20 around the delivery of the improvements required as a result of the Ofsted report. As not all improvements made will have been in place for the whole year under review there is a risk that an exception may still be required in our VfM conclusion. |
| **Our response** | Our work in this area involved:<br>• Review of any subsequent correspondence with Ofsted;<br>• Consideration of the findings and conclusions made in the Ofsted report, including review of the Council's progress to date in delivering actions to address the findings; and<br>• Review of management progress in developing an action plan and the arrangements put in place by the Council to deliver improvement. |
| **Conclusion** | Our work is on going but based on our work to date we note that the monitoring reports have acknowledged that the Council has made much progress in reshaping its children's services in the last year but also highlight that there are still a number of areas for improvement and therefore we expect to modify our opinion in relation to Value for Money on this basis. |

# Other significant findings

## Internal control and risk management

During the course of our audit we have identified a number of internal control and risk management findings, which we have included below for information.

| Area | Observation | Management response | Priority |
|---|---|---|---|
| **Preparation for IFRS 16 (initially raised 2018/19)** | The implementation of IFRS 16, Leases, has been delayed for a year to 2020/21 due to Covid-19 but it is expected to have a greater and more complex impact upon most Councils than the adoption of IFRS 9 and 15. The scope and potential complexity of work required, which may require system or process changes to underpin correct accounting under the standard, will require work to be completed at a significantly earlier stage than has been the case for IFRS 9 and 15 to allow for financial reporting timetables to be met.<br>We recommend the Council targets completion of its IFRS 16 impact analysis during 2020/21, and to calculate an adjusted opening balance sheet position for audit following the 31 March 2020 audit. We recommend early consideration following the impact analysis of actions required to embed IFRS 16 accounting in the Council's underlying accounting systems. | TBC | |
| **Property, plant and equipment additions** | As part of the year end process, management focus on ensuring that all additions over £10k are appropriately recorded, this means that some additions below this level may be missed. As part of the year end close down a check should be done on the total aggregate amount of invoices below the threshold that have been accounted for post year end to ensure that there is not potential for a material issue. | TBC | |

The purpose of the audit was for us to express an opinion on the financial statements. The audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters being reported are limited to those deficiencies that we have identified during the audit and that we have concluded are of sufficient importance to merit being reported to you.

Low Priority

Medium Priority

High Priority

# Other significant findings (continued)

## Internal control and risk management

During the course of our audit we have identified a number of internal control and risk management findings, which we have included below for information.

| Area | Observation | Management response | Priority |
|---|---|---|---|
| **Long term debtor recoverability** | There appears to be a lack of detailed assessments of the recoverability of the loans that have been provided to subsidiaries and private companies following significant changes in the economic environment i.e. the Covid-19 pandemic. Which means that there is a risk that recoverability issues will not be identified in a timely manner and any reliance on property valuations may not be accurate given the impacts of COVID on the relevant businesses and the secured assets. | TBC | |
| **IT findings** | A number of findings have been raised as part of our review of the IT environment:<br>• Access permissions for new users on the CEDAR system that determine folders and data that the new users can access are based on 'same as user' approach. This involves IT team copying the permissions from an existing user (an instructed by Line Managers) rather than utilising specific role based profiles. There is also a lack of clear, documented information available to line managers setting out which permissions each user has. Without understanding fully what access the user being copied has, and what this access can do, colleagues access may be replicated inappropriately leading to potentially inappropriate /excessive rights that are not necessary to the users role.<br>• It has been noted that the following parameters are missing from CEDAR and Selima: lockout threshold and duration. Password expiry has also been set at 0 for Windows AD, which in turn is configured in the Orchard system due to the integration of credentials. With these parameters being inactive, it increases the risk of inappropriate or unauthorised access to the systems and amendments which could impact the financial and legal reputation of the Council. | TBC | |

# Other significant findings (continued)

## Prior year recommendations

During the course of our prior year audit we identified a number of internal control and risk management findings, which we have followed up with management.

| Area | Observation | Implementation of recommendations | Priority |
|---|---|---|---|
| **New accounting standards – IFRS 9 and 15** | Although our work on IFRS 9 and 15 did not identify any material changes to the financial statements, we highlight that this has been done as a one off exercise to assess and calculate the impact of GAAP differences, without embedding into the Council's underlying systems, processes and controls.<br>This presents a risk that new contracts or transaction may give rise to unanticipated impacts in future, or not be detected.<br>We recommend the Council review how to update its day to day accounting processes, including any necessary system and control changes, to reflect the requirements of IFRS 9 and 15, and the process to be followed in assessing any new and unusual transactions. | TBC | |
| **Arrangements to secure economy, efficiency and effectiveness in the use of resources – Children's services** | We note the finding raised by Ofsted following their inspection of children's social care services in the current year which has resulted in an overall inadequate rating for the Council's service.<br><br>We have held discussions with management to understand the processes and procedures that have been put in place to implement the required changes.<br><br>We recommend that the Council ensure that there continues to be sufficient senior officer input and that appropriate governance and monitoring structures are used to ensure that the required changes are implemented in a timely manner. | TBC | |

# Other significant findings (continued)

## Prior year recommendations (continued)

| Area | Observation | Implementation of recommendations | Priority |
|---|---|---|---|
| **Arrangements to secure economy, efficiency and effectiveness in the use of resources – Financial sustainability** | The process that the Council undertakes in assessing its funding gap shows good consideration of the overall financial position by including identified pressures and the impact that current year schemes will have going forward. From our review of the schemes currently identified in relation to the 2019/20 plan we noted that the majority will only have a non-recurrent impact in 2019/20 which will increase the level of savings which the Council will be required to achieve in the following years.<br><br>The Council need to ensure that it has the correct processes and procedures in place to identify and implement the required levels of savings to ensure medium term financial stability. | TBC | |
| **Property Valuations** | A number of recommendations and best practice points have been identified from our work:<br>• The Council should put in place detailed commissioning/terms of engagement documentation covering the minimum contents of Terms of Engagement/Service Line Agreement as specified by the RICS and CIPFA.<br>• The overriding valuation report which accompanies the summary schedules should include all relevant details on the general valuation methodology to limit the number of queries received from our property specialists.<br>• Where build cost indexation is used as part of an interim valuation the council should ensure that it is not applied to the land values of the assets.<br>• The Council should ensure that Non-Operational Assets are appropriately spit between Surplus and Assets held for sale.<br>• The valuation worksheets for the individual assets should providing factual descriptive information on the property, commentary on valuation approach/considerations, evidence to support the key inputs and a detailed breakdown of the valuation.<br>• All Specialised assets should be valued on a detailed modern equivalent asset (MEA) depreciated replacement cost basis as updating the values on a derived build cost index is not recommended or best practice. | TBC | |

# Other significant findings

## Prior year recommendations (continued)

| Area | Observation | Implementation of recommendations | Priority |
|---|---|---|---|
| IT | There is no formal approval process in place for the  for configuration changes made to the Capita and Selima systems; the Council rely on the Administrators. Essentially changes can be made to the system without any form of approval from appropriate personnel, which makes them unauthorised and potentially inappropriate. It has also been noted that that the individual who develops and tests a change on the CEDAR, Orchard and Selima systems, can also be responsible for the implementation of the change in to the live environment. | TBC | |

# Our audit report

## Matters relating to the form and content of our report

Here we discuss how the results of the audit impact on other significant sections of our audit report.

**Our opinion on the financial statements**

Out audit is ongoing with a number of judgemental/ significant areas of the audit still to be completed, but based on our work to date we expect our opinion on the financial statements to be unmodified.

**Material uncertainty related to going concern**

We have not identified a material uncertainty related to going concern and will report by exception regarding the appropriateness of the use of the going concern basis of accounting.

**Emphasis of matter and other matter paragraphs**

We include details on the emphasis of matter paragraph in relation to property valuations on page 14 of this report.

There are no other matters we judge to be of fundamental importance in the financial statements that we consider it necessary to draw attention to in an emphasis of matter paragraph.

There are no matters relevant to users' understanding of the audit that we consider necessary to communicate in an other matter paragraph.

**Our value for money conclusion**

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money).

Based on the work undertaken we expect to modify our opinion in relation to the Council's arrangements.

**Other reporting responsibilities**

The Annual Report is reviewed in its entirety for material consistency with the financial statements and the audit work performed and to ensure that they are fair, balanced and reasonable.

# Your annual report

We are required to report by exception on any issues identified in respect of the Annual Governance Statement..

| | Requirement | Deloitte response |
|---|---|---|
| Narrative Report | The Narrative Report is expected to address (as relevant to the Council):<br>- Organisational overview and external environment;<br>- Governance;<br>- Operational Model;<br>- Risks and opportunities;<br>- Strategy and resource allocation;<br>- Performance;<br>- Outlook; and<br>- Basis of preparation | We have assessed whether the Narrative Report has been prepared in accordance with CIPFA guidance and have raised a number of comments.<br>We have also read the Narrative Report for consistency with the annual accounts and our knowledge acquired during the course of performing the audit, and is not otherwise misleading.<br>We will review the changes in the updated version once received. |
| Annual Governance Statement | The Annual Governance Statement reports that governance arrangements provide assurance, are adequate and are operating effectively. | We are assessing whether the information given in the Annual Governance Statement meets the disclosure requirements set out in CIPFA/SOLACE guidance, is misleading, or is inconsistent with other information from our audit. |

# Purpose of our report and responsibility statement

## Our report is designed to help you meet your governance duties

### What we report

Our report is designed to help the Audit Committee and the Members discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA (UK) 260 to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Narrative Report.
- Our internal control observations.
- Other insights we have identified from our audit.

### What we don't report

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

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

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

### The scope of our work

Our observations are developed in the context of our audit of the financial statements.

We described the scope of our work in our audit plan.

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

### Use of this report

This report has been prepared for the Audit Committee and the Council, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

**Deloitte LLP**

Leeds| 20 November 2020

# Sector updates

# National Audit Office updated Code of Audit Practice

## The National Audit Office has issued the new Code of Audit Practice applicable for 2020/21 audits onwards

**Issue**

The National Audit Office issued the new Code of Audit Practice for 2020/21 onwards. The Code is applicable to NHS Trusts and Foundation Trusts, CCGs, and Local Authorities.

The Code remains aligned (where relevant) with generally accepted auditing standards, with the intention that this will allow the Code to adapt to any changes arising as a result of the wider debate within the audit profession (such as the Brydon Review and the Redmond Review).

The most significant changes are around Value for Money (the arrangements to secure economy, efficiency, and effectiveness in the use of resources), which:

- Change the approach away from the auditor performing a risk assessment, and then only performing further work if a significant risk were identified, to specifying procedures that will need to be undertaken in each of three areas. This will require a minimum level of work at every local public body, with additional risk based work where relevant.
- Moving the focus of reporting to providing public narrative commentary on each of criteria considered for all bodies. This will be included in a separate "Annual Auditor's Report", which will be a public narrative report, which for NHS bodies will be issued alongside the audit opinion.
- The audit opinion will continue to include reporting by exception where the auditor is not satisfied in respect of arrangements in place (which is a change from the initial proposals consulted upon).

The three criteria that would be considered in Value for Money work would be:

- **Financial sustainability:** How the body plans and manages its resources to ensure it can continue to deliver its services.
- **Governance:** How the body ensures that it makes informed decisions and properly manages its risks and finances.
- **Improving economy, efficiency and effectiveness:** How the body uses information about its costs and performance to improve the way it manages and delivers its services.

Where the auditor identifies significant weaknesses in VfM arrangements, the Code includes an expectation that the auditor will issue recommendations to the audited body, and considers whether to do so when identified.

Other proposed changes include:

- Giving the NAO the ability to specify whether auditors should issue 'enhanced' auditor reports (as is already done for NHS Foundation Trusts);
- Clarifying expectations on reporting by introducing key principles for effective reporting, so that auditors ensure that any reporting is as effective and transparent as possible and promotes local improvement.

We note that the changes are likely to increase the scope of work required for audits, both in required procedures on Value for Money and in the need for an additional public report each year.

The NAO will now move forward in developing supporting guidance on the detail of what will be required.

**Next steps**

- We will update the Authority as the requirements develop.
- We will agree with the Authority as soon as practicable how to implement changes from the new Code in our audit approach for 2020/21 onwards.

# Brydon Review

## Report of the independent review into the quality and effectiveness of audit

### Issue

On 18 December 2019, Sir Donald Brydon published his far-reaching report following an independent review of the quality and effectiveness of audit.

In undertaking the review, Sir Donald received 120 submissions, totalling 2,500 pages, and held more than 150 meetings with regulators, auditors, investors, companies and professional services firms.

It is a long report with detailed and innovative proposals in a range of areas and it highlights the changing public-interest responsibilities of business and recognises that society expects corporate reporting to be broader and more relevant than at present. As part of that, Sir Donald is challenging auditors to play their part in making audit more informative to a broader group of stakeholders. Recognising the complexity of this part of the governance eco-system, the review also includes recommendations about the behaviour of directors, audit committees, shareholders and regulators and about actions that can be taken by all four to create an environment which will permit better and more effective audit.

Whilst the focus of the Brydon Review was on listed companies (with some recommendations focussing only on the largest listed entities), the findings will inevitably impact the wider audit profession and have an influence on the future scope of public sector audit.

His recommendations include:

- A redefinition of audit and its purpose
- The creation of a new profession of corporate auditing governed by principles
- The introduction of suspicion into the qualities of auditing
- The extension of the concept of auditing to areas beyond financial statements
- Mechanisms to encourage greater engagement of shareholders with audit and auditors
- A change to the language of the opinion given by auditors
- New reporting by directors - the introduction of a corporate Audit and Assurance Policy, a Resilience Statement and a Public Interest Statement
- Suggestions to inform the work of BEIS on internal controls and improve clarity on capital maintenance
- Greater clarity around the role of the audit committee
- A package of measures around fraud detection and prevention for both directors and auditors
- Improved auditor communication and transparency
- Obligations to acknowledge external signals of concern
- Extension of audit to new areas such as Alternative Performance Measures (APMs) & KPIs
- The increased use of technology

### Next steps

- BEIS will consider these recommendations and respond with a consultation later this year (timing as yet to be determined).
- We will continue to update the Authority as the actions resulting from this review become clearer and the impact on local audit, more specifically, is determined.

# Redmond review

## The Redmond Review will consider the effectiveness of the changes from the Local Audit and Accountability Act 2014, and how reporting could improve.

**Issue**

On 10 July 2019, the Secretary of State for Housing, Communities & Local Government asked Sir Tony Redmond to conduct a Review of the arrangements in place to support the transparency and quality of local authority financial reporting and external audit including those introduced by the Local Audit and Accountability Act 2014, with the report issued on 8 September 2020.

The scope of the review covered: whether the audit and related regulatory framework for local authorities in England is operating in line with the policy intent set out in the Local Audit and Accountability Act 2014 (which replaced the Audit Commission arrangements); whether the reforms have improved the effectiveness of the control and governance framework along with the transparency of financial information presented by councils; whether the current statutory framework for local authority financial reporting supports the transparent disclosure of financial performance and enables users of the accounts to hold local authorities to account; and to make recommendations on how far the process, products and framework may need to improve and evolve to meet the needs of local residents and local taxpayers, and the wider public interest.

The review's recommendations include:

- Proposing a single overarching body, the Office of Local Audit Regulation ("LOAR"), responsible for the co-ordination and regulation of local audit activity. This would bring together responsibilities currently held by Public Sector Audit Appointments, the National Audit Office, the Financial Reporting Council, and the Institute of Chartered Accountants in England and Wales. The OLAR would also publish reports summarising the results of audits across the sector. The OLAR would report to a new Liaison Committee comprising key stakeholders and chaired by MHCLG on the development of local audit.
- Councils reviewing their governance arrangements, including: the auditor reporting annually to Full Council; considering appointing at least one independent, suitably qualified, member of the Audit Committee; and formalising the Chief Executive Office, Monitoring Officer and Chief Financial Officer meeting with the Kay Audit Partner at least annually.
- Extending the timetable for local authority audits, probably to 30 September from 31 July each year.
- Revising the fee structure for local audit, to appropriately reflect the cost of delivery of audit and the required resources for audit quality.
- MHCLG should review its framework for assurance over financial sustainability of local government. The review suggests potential additional audit requirements around financial resilience that the OLAR may consider, including audit review of compliance with the CIPFA Financial management Code (which MHCLG might give statutory status).
- Introducing a new standardised statement of service information and costs prepared by each authority, compared to budget. This is envisaged to be a clearer way to communicate with taxpayers and service users. This report would be subject to some from of audit sign off. With budgetary performance separately reported, it is suggested CIPFA review the main accounts requirements, which may enable some disclosures to be removed (effectively moving the financial statements to IFRS reporting).

The implementation of most of the recommendations will require further consultation or primary legislation.

**Next steps**

- We will update the Audit Committee as proposals move forward for implementation of the recommendations.
- We would welcome the opportunity to implement the proposal to report annually to Full Council, and to include a formal meeting with the Chief Executive, Monitoring Officer and Corporate Director – Strategic Resources in our structure of contracts and interactions with the Council.

# Appendices

# Audit adjustments

## Unadjusted misstatements and disclosure deficiencies

We will report the unadjusted misstatements and disclosure deficiencies in our final report once we have confirmed the final position in relation to the issues identified and reviewed the adjustment management have made to the final version of the annual accounts.

# Fraud responsibilities and representations

## Responsibilities explained

**Responsibilities:**

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.

**Required representations:**

We have asked the Council to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you are not aware of any fraud or suspected fraud that affects the entity or group.

We have also asked the Council to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

**Audit work performed:**

In our planning we identified the risk of fraud in management override of controls, and completeness and cut-off of expenditure as a key audit risk for your organisation.

During the course of our audit, we have had discussions with management and those charged with governance, and no significant issues were raised that would require a change to our audit plan.

In addition, we have reviewed management's own documented procedures regarding fraud and error in the financial statements

We have reviewed the paper prepared by management for the audit committee on the process for identifying, evaluating and managing the system of internal financial control.

**Concerns:**

No concerns have been identified from whistle blowing procedures and our audit procedures.

# Independence and fees

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

| | |
|---|---|
| Independence confirmation | We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Council and will reconfirm our independence and objectivity to the Audit Committee for the year ending 31 March 2020 in our final report to the Audit Committee. |
| Fees | There are no non-audit fees for 2019/20 outside of those noted in the table on the following page. |
| Non-audit services | We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary. |
| Relationships | We have not other relationships with the Council, its directors, senior managers and affiliates, and have not supplied any services to other known connected parties. |

# Independence and fees

The professional fees expected to be charged by Deloitte in the period from 1 April 2019 to 31 March 2020 are as follows:

| | Current year £ | Prior year £ |
|---|---|---|
| Financial statement audit including Whole of Government and procedures in respect of Value for Money assessment [1]* | 84,818 | 84,818 |
| Agree variation relating to HRA review [2]* | - | 15,000 |
| Additional audit fees – 2018/19 financial statements | - | 18,000 |
| Additional fee for Houndshill acquisition [3]* | TBC | - |
| Additional fee for changes in the current year [4]* | TBC | - |
| **Total audit** | **84,818** | **117,818** |
| Audit related assurance services – Housing Benefit | 10,250 | 10,250 |
| Audit related assurance services – Teachers pension return | 4,000 | 4,000 |
| Audit related assurance services – Pooling of Housing Capital Receipts | 4,000 | 4,000 |
| **Total assurance services** | **18,250** | **18,250** |
| **Total fees** | **103,068** | **136,068** |

[1] The fee reflected here is the scale fee. In line with recent PSAA correspondence that scale fees should be negotiated by individual s151 officers, we will be looking to discuss with the Authority the current level of fee.

[2] We are undertaking a follow up of the recommendations raised in our action plan in the prior year.

[3] Fee for additional audit work over acquisition of Houndshill to be agreed and the level will be dependent on whether this is identified as a significant audit risk area with respect to our value for money conclusion.

[4] Fee for any additional work required in relation to the changes to the Minimum Revenue Provision policy, the Blackpool Transport Services pension fund pooling arrangement, the two new subsidiaries in relation to the group accounts and the specific issues identified.

* All additional fees are subject to agreement with PSAA.

Deloitte.