



## **Blackpool Council**

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

March 2021

Deloitte Confidential: Government and Public Services

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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 updated 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:

- completion of Value for Money work on financial sustainability and finalisation of testing of fees and charges, pensions, minimum revenue provision and long term debtors;
- 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 2020 through to signing.

### **Audit summary**

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; and
- 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)

### **Audit summary (continued)**

As well as the significant risks identified above, we have identified a number of other audit matters as part of our work:

#### **Capital accounting**

The following issues have been identified from our work on the property valuation significant risk:

- Since the introduction of the revaluation reserve, the Council had not retained details of the assets which had 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 charged through the CIES. The Council has prepared a working from which we could determine that there is a maximum potential misstatement of £1.2m. We expect the actual misstatement will be lower but management will need to undertake further work during 2020/21 to confirm the exact misstatement.
- In the current year, a small number of voluntary aided schools were identified which had been retained on the balance sheet following a previous review process in 2015/16. In the draft financial statements, the Council had removed the assets from the balance sheet but has not been able to provide 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). Therefore these assets (£7.9m) have been retained on the balance sheet until further information has been obtained as to why they were originally classified as remaining on the Council's balance sheet.
- A valuation was undertaken in year for the 'Foxhall Village - Tyldesley/Rigby Road Redevelopment', as the property developer went into administration during the year. This 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 within the Council's 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 and we confirmed the Council had recognised the correct assets as at year end. However, an adjustment has been posted to the financial statements to correct the presentation of the accounting treatment, with a reversal of the disposal of assets of £4.1m and an upward revaluation of £1.4m, and the recognition of an impairment of £2.7m.
- During the year, the Council recognised 'The Tramsheds' asset on the 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 Lancashire Management Operations Limited (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 management have posted a prior period adjustment to the financial statements to correctly recognise the value of the asset of £14.1m.
- 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. Adjustments of £13.8m and £12.3m respectively have been posted to the financial statements to reverse the original impairments and upward valuations of £6.8m and £3.8m respectively have been recorded.

# Partner introduction

## The key messages in this report (continued)

### **Audit summary (continued)**

#### **Capital accounting (continued)**

- 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 a total misstatement at year end of £21.0m, of which £17.5m is also a misstatement in previous years. As this amount is material, a prior period adjustment has been made to the financial statements. Management have also undertaken a wider piece of work to confirm that there is no other similar double counting of assets within the valuations that have been undertaken and no further errors were found. We have audited the work undertaken and have not identified any issues with management's assessment.
- 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 have made an adjustment of £17.9m to reverse the transfer of the assets which were not considered to meet the definition of investment properties.
- In November 2019, the Council purchased the Houndshell 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. No issues have been identified from our work as part of the final audit visit.

Given the number of issues identified with capital accounting, we have raised a recommendation around the capacity of the finance team to undertake an appropriate level of review, see page 26.

#### **Subsidiary valuations**

- 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. We have set out the work undertaken and the findings on page 18.

#### **Long term debtors**

- 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 have not identified any misstatements. Our work is ongoing, see page 17 for the details of the procedures undertaken and page 24 for the recommendations we have raised based on our work.

#### **Blackpool Transport Services pension surplus transfer**

- 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 have agreed an adjustment to present the transaction on a net basis within the financial statements, which has a £2m impact. We have raised one recommendation in relation to this arrangement, see page 25.

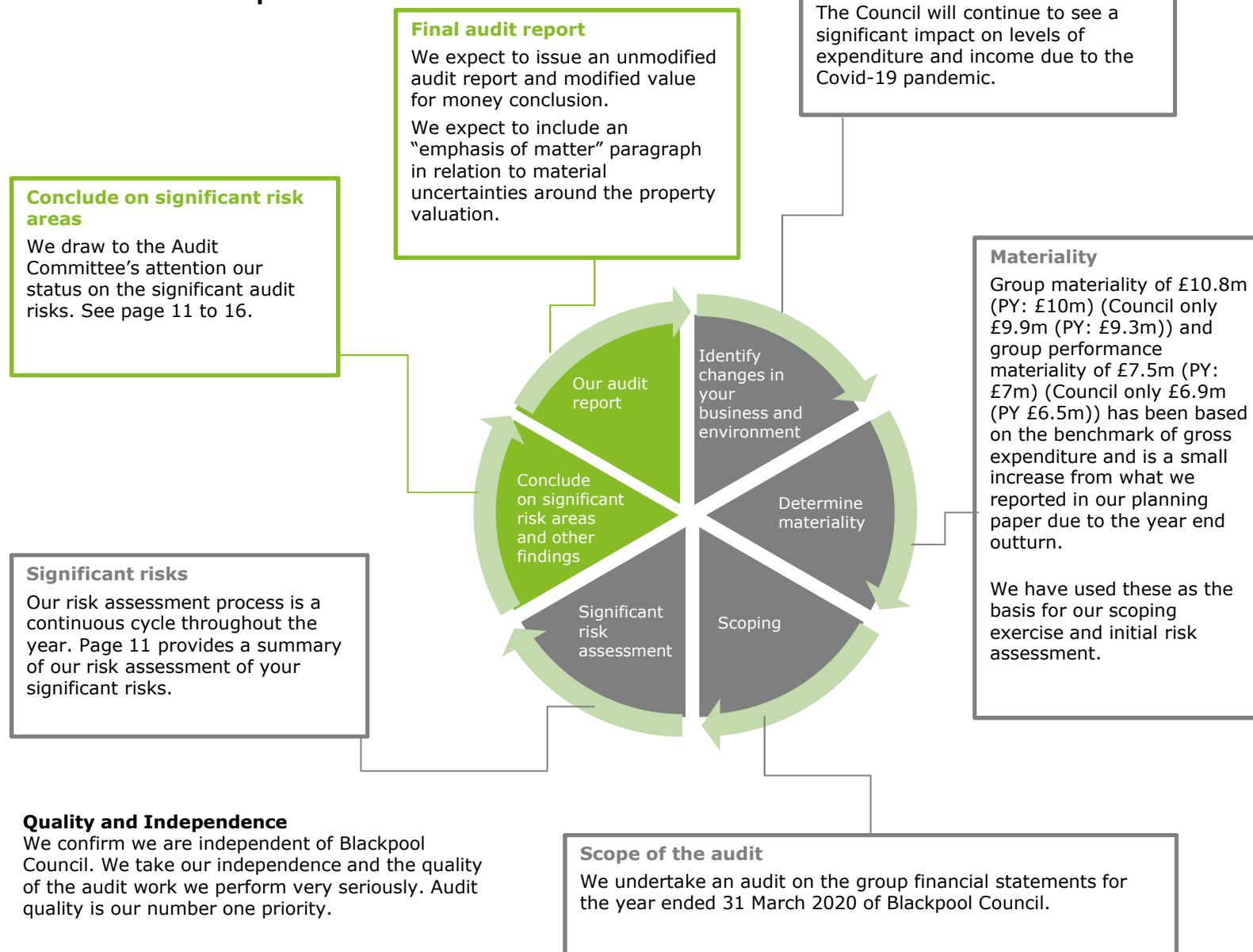
# Partner introduction

## The key messages in this report (continued)

<b>Audit summary (continued)</b>	<p><b>Financial instrument fair values</b></p> <ul style="list-style-type: none"><li>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 a misstatement was identified in the financial instruments fair value disclosures. Management have made an adjustment to the financial statements.</li></ul> <p>Subject to completion of the procedures set out on page 3, 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. See pages 19 to 22 for additional detail in relation to Value for Money.</p>
<b>Financial sustainability and Value for Money</b>	<p>The Council reported a deficit on the provision of services of £26.7m. As at 31 March 2020, the Council had £69m of usable reserves.</p> <ul style="list-style-type: none"><li>The 2020/21 gap per the Council's original budget was predicted to be £19.7m. Of the required savings, £20.5m are forecast to be achieved by year end, but additional in year pressures which have only been partially offset by additional government funding means that there is a forecast gap of £7.9m.</li><li>As discussed on pages 19 to 22, we identified significant risks around the Council's financial sustainability and the recommendations from the prior year Ofsted report.</li></ul> <p><b>Conclusion</b></p> <ul style="list-style-type: none"><li>We anticipate based on our work to date that we will modify our opinion in respect of the Council's arrangements for securing economy, efficiency and effectiveness of the use of resources.</li></ul>
<b>Narrative Report &amp; Annual Governance Statement</b>	<ul style="list-style-type: none"><li>We have reviewed the Council's Annual Report and Annual Governance Statement to consider whether it is misleading or inconsistent with other information known to us from our audit work.</li><li>The Annual Governance Statement complies with the Delivering Good Governance guidance issued by CIPFA/SOLACE.</li><li>We have suggested a number of minor changes to management for consideration.</li></ul>
<b>Duties as public auditor</b>	<ul style="list-style-type: none"><li>We did not receive any queries or objections from local electors this year.</li><li>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.</li></ul>
<b>Whole of Government Accounts</b>	<ul style="list-style-type: none"><li>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).</li></ul>

Nicola Wright  
Audit Partner

# Our audit explained



## Timeline 2019/20



# 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 19-22.

# 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
<b>Impact on property, plant and equipment</b>	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.
<b>Valuation of commercial or investment properties and financial instruments</b>	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.	<p>The material uncertainty noted above also includes Investment Properties.</p> <p>We have involved our financial instrument specialists in our audit of the financial instruments balances and disclosures.</p>
<b>Impact on pension fund investment measurement</b>	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 any relevant issues. We have requested and received their IAS19 letter in relation to the work undertaken as part of their audit of the Pension Fund, and note that they have included an emphasis of matter in their audit report due to the valuation of pooled and directly held property valuations being reported on the basis of a material valuation uncertainty because of the effects of Covid-19. This has been adequately disclosed by the Council in the revised financial statements and we do not consider it necessary to include an emphasis of matter within our audit report on the Council financial statements.

# COVID-19 pandemic (continued)

## Impact on the statement of accounts and audit

Area	Potential impact on annual report and financial statements	Audit response
<b>Expected credit losses</b>	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 management's assessment of the impact that the Covid-19 pandemic has had on the recoverability of outstanding debtors. See page 17 for the detail on the procedures undertaken in relation to long term debtors.
<b>Covid-19 related income received pre year end</b>	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.	<p>We note that, after discussion and reference to guidance, this grant has been treated correctly in the updated statement of accounts.</p> <p>The remaining Covid-19 related income receipts received after the year end will be considered as part of the 2020/21 audit.</p>
<b>Narrative and other reporting issues</b>	<p>The following areas need to be considered by local authorities, having being impacted on by the COVID-19 pandemic.</p> <ul style="list-style-type: none"><li>• 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.</li><li>• 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.</li></ul>	We raised a number of points with management on how the disclosure in relation to Covid-19 could be improved and the financial statements have been appropriately updated.

# 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		12
Property valuations			D+I	Satisfactory		13
Pension liabilities			D+I	Satisfactory		15
Management override of controls			D+I	Satisfactory		16

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

- Financial sustainability
- Ofsted findings

See pages 19-22.

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

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**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 16). In the current year we have identified the risk as relating specifically to year end accruals.

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.

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.

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**Our response**

Our work in this area included the following:

- We have tested the design and implementation of the key controls in place in relation to recording completeness of accruals; and
  - We have performed focused testing in relation to the completeness of accruals through testing of post-year end unprocessed invoices and payments made.
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**Conclusion**

We have not identified any material omissions of expenditure through our work in this area.

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# Significant risks

## Risk 2 – Property valuations

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**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.

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 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.

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.

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**Our response**

Our work in this area included the following:

- We have tested the design and implementation of key controls in place around the valuation of property;
- 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;
- We have reviewed the approach used by the Council to assess the risk that assets not subject to revaluation are materially misstated;
- 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
- 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.

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**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 pages 4 and 5. Recommendations in relation to these matters have been included on pages 23 to 29.

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.

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# 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:

*"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."*

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### **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 a 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:

*"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."*

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### **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:

*"We draw attention to note 7 and note 15, 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."*

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# Significant risks

## Risk 3 – Pension liabilities

<b>Risk identified</b>	<p>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.</p> <p>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.</p> <p>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.</p>
<b>Our response</b>	<p>Our work in this area included the following:</p> <ul style="list-style-type: none"><li>• 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;</li><li>• We have evaluated the competency, objectivity and independence of the actuarial specialist;</li><li>• 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</li><li>• We have reviewed the pension related disclosures in the financial accounts.</li></ul>
<b>Conclusion</b>	<p>From the work performed we have identified an adjustment relating to the accounting treatment of the Blackpool Transport Services pensions surplus. See page 5 for further details.</p> <p>Our other procedures have identified that the Pension Fund auditor has included an emphasis of matter in their audit report due to the valuation of pooled and directly held property valuations being reported on the basis of a material valuation uncertainty because of the effects of Covid-19. The Council has adequately disclosed this in their financial statements and we do not consider it necessary to include an emphasis of matter within our audit report on the Council financial statements.</p> <p>Based on the work performed, we have no further matters to report.</p>

# Significant risks

## Risk 4 – Management override of controls

<b>Risk identified</b>	<p>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.</p> <p>The key judgements in the financial statements include those which we have selected to be the significant audit risks, (completeness of accrued expenditure, pension and 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.</p>
<b>Our response</b>	<p>In considering the risk of management override, we plan to perform the following audit procedures that directly address this risk:</p> <ul style="list-style-type: none"><li>• We have tested the design and implementation of key controls in place around journal entries and key management estimates;</li><li>• 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;</li><li>• 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</li><li>• 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.</li></ul>
<b>Conclusion</b>	<p>Based on our work, we have not identified any issues in relation to management override.</p>

# Other areas of audit focus

## Long term debtors

<b>Risk identified</b>	<p>At 31 March 2020, the Council had provided loans totalling £78.3m to a number of its subsidiaries and private companies. Following the year end, the Council also offered a six month repayment holiday from 1 April 2020 to 30 September 2020 to all businesses with a loan from the Council.</p> <p>Due to the impact of Covid-19 on a wide range of companies within the economy, we believe there is a risk that some of these entities may not be able to repay the loans provided by the Council, and as a result the value of the loans at 31 March 2020, should be impaired.</p>
<b>Our response</b>	<p>We have performed the following procedures to address this risk:</p> <ul style="list-style-type: none"><li>• After the six month repayment holiday, we have confirmed for a sample of loans that repayments have been made by the companies to the Council. This has included agreeing a sample of loan repayments back to the Council's bank accounts;</li><li>• Obtained loan agreements from the Council for the sample of loans tested. We have reviewed the terms and conditions included in the agreements, with a particular focus on any collateral that is included in the agreements;</li><li>• Reviewed and assessed the current operational status of each company in our sample, including reviewing the latest set of audited financial statements for the company, in order to identify any potential risks to the recoverability of the loan provided by the Council;</li><li>• For the loans with Create Developments (Blackpool) Ltd, Coolsilk and Ocean Boulevard we have engaged our internal valuation specialists to review the valuation of the assets held as collateral against the loans and are awaiting their final report;</li><li>• For the loan with Blackpool Transport Service (BTS), we have reviewed the valuation of the collateral held against the loan. This involved obtaining supporting documentation relating to BTS asset sales that were completed in 2019/20, in order to allow us to assess whether the value of the collateral held was sufficient to cover the value of the loan; and</li><li>• We have also reviewed the financial performance of BTS in 2020/21 along with future financial plans.</li></ul>
<b>Conclusion</b>	<p>Our work in relation to this risk is ongoing but to date we have not identified any factors that would suggest that the valuation of the long term debtors is materially misstated.</p> <p>We have however identified two recommendations during the completion of our work. Further information in relation to these findings can be found in the Other Significant Findings section of the report.</p>

# Other areas of audit focus (continued)

## Investments in subsidiaries

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**Risk identified**

At 31 March 2020, the Council had recognised investments in its subsidiaries totalling £27.4m. Following the year end, the Council also offered a six month repayment holiday from 1 April 2020 to 30 September 2020 to all businesses with a loan from the Council, which included the subsidiary entities.

The subsidiary entities are valued by an external valuer, based on a range of assumptions including the future expected performance of the individual entities. Due to the impact of Covid-19 on the economy, we believe there is a risk that some of these investments may require impairment if the business plans have been impacted significantly.

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**Our response**

We have performed the following procedures to address this risk:

- Obtained the valuations provided by Smith Craven;
- Involved our valuation specialists to assist in our assessment of the assumptions and methodology underpinning the valuations;
- Held discussions with Smith Craven to further develop our understanding of the valuation approach; and
- For a sample of the investments held by the Council, we developed an independent valuation range to assess the reasonableness of the Council's current investment values.

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**Conclusion**

For two of the investments selected for testing, there were issues identified in relation to the valuation methodology. For one of the companies, the value at which the Council currently holds the investment was still within the "reasonable" range and we have therefore raised a recommendation regarding the valuation approach, see page 25.

While the valuation of a subsidiary is a judgement and there is a level of uncertainty and subjectivity in the process, especially when market information is limited and there may not be directly comparable cases due to the role the Council has in the operations undertaken by the subsidiary, based on the input from our specialists we consider there to be potential impairment of the BTS investment as at 31 March 2020 of between £5.8m - £9.8m, see proposed adjustment on page 34, which has been raised for the midpoint.

We draw this to the attention of the Audit Committee as we consider this to be a key management judgement.

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# Significant risks

## VfM Risk 1 – Financial Sustainability

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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.

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**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.

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.

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**Our response** Our work in this area included:

- Obtaining an understanding of the Council's Medium Term Financial Plan, budget for 2020/21 and transformation programmes.
- Discussions with the Director of Resources, and senior operational staff;
- Review of the Council's draft Narrative Report, Annual Governance Statement and Council papers and minutes;
- Consideration of issues identified in our financial statements audit work;
- Consideration of the Council's financial results, including delivery of savings, and the Council's plan; and
- Review of any reports from regulators e.g. Ofsted, issued in the year.

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**Conclusion** From our review of the Council's financial performance and its progress on the savings plan for 2020/21 we note that the Council faces significant financial challenges due to demand pressures specifically in relation to Children's services as well as Covid related impacts on both income and expenditure.

Our work is ongoing in relation to this risk, but based on the work completed to date we do not expect to modify our VfM conclusion in relation to financial sustainability.

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# VfM Risk 1 – Financial sustainability (continued)

## 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 in 2020/21 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.



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 the overall 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 would have required £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 March 2021 meeting of the Executive, which included an updated forecast of a decrease in earmarked reserves to £21.4m by the end of 2020/21. From tranches 1-4 of the Covid-19 funding from MHCLG, Blackpool has been allocated £16.3m.

# VfM Risk 1 – Financial sustainability (continued)

## Covid-19 impact on 2020/21

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### Impact on 2020/21 audit

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As noted on page 19, 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.

Although the Council is in a 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.

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# Significant risks

## VfM Risk 2 – Ofsted Findings

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<b>Risk identified</b>	<p>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'.</p> <p>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.</p> <p>We have therefore identified a significant VfM risk over the delivery of the improvements required as a result of the Ofsted report.</p> <p>A commissioner has been appointed following the inspection to oversee the process and ensure improvement.</p> <p>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.</p> <p>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.</p>
<b>Our response</b>	<p>Our work in this area involved:</p> <ul style="list-style-type: none"><li>• Review of any subsequent correspondence with Ofsted;</li><li>• 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</li><li>• Review of management progress in developing an action plan and the arrangements put in place by the Council to deliver improvement.</li></ul>
<b>Conclusion</b>	<p>We note that the monitoring reports have acknowledged that the Council has made 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.</p>

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# 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)	<p>The implementation of IFRS 16, Leases, has been delayed again until 2022/23 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.</p> <p>We recommend the Council targets completion of its IFRS 16 impact analysis during 2021/22, and to calculate an adjusted opening balance sheet position for audit following the 31 March 2021 audit. We recommend early consideration following the impact analysis of actions required to embed IFRS 16 accounting in the Council's underlying accounting systems.</p>	TBC	
Property, plant and equipment additions	<p>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.</p>	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 has been 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. This 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-19 on the relevant businesses and the secured assets.	TBC	●
Long term debtor – signed loan agreements	We have identified that the loan agreements between the Council and its subsidiary companies have not been signed. Both the Council and the subsidiaries are aware of the terms of the loan agreement, however in order to avoid potential legal challenge it is recommended that the Council ensure all agreements are signed going forward.	TBC	●
IT findings	<p>A number of findings have been raised as part of our review of the IT environment:</p> <ul style="list-style-type: none"> <li>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.</li> <li>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.</li> </ul>	TBC	●

# 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
<b>BTS pension transfer</b>	The Council should put in place formal documentation which sets out the terms and conditions on which it has undertaken the transaction with BTS so that it is clear what the Council's potential liabilities are in relation to the pension balances.	TBC	
<b>Subsidiary valuations</b>	The valuation approach adopted by the Council in valuing the investment it holds in its subsidiaries should be reviewed so that they are undertaken on an appropriate basis.	TBC	
<b>Review of nil NBV items</b>	Council should perform a review of the nil NBV items still held within the 'VPE' category in the FAR to confirm those that are still held by the council and those that should be removed from the fixed asset register. As part of this process if there is a significant number of assets still in use with a nil NBV the UELs for those types of assets should be reviewed to ensure that they reflect the appropriate expected useful economic life.	TBC	

# 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
Review of financial statements	A thorough review of the financial statements and the accounting treatment for all significant transactions should be undertaken by senior members of the finance team to make sure that any issues are identified early in the process. A review should be undertaken to ensure that the finance team has sufficient capacity to be able to perform these additional processes.	TBC	
Recording of previous impairments to PPE	Management should update the fixed asset register to ensure that it includes the required information in relation to impairments or downward revaluations that have been charged in prior years to the CIES, so that an appropriate amount of any subsequent upward revaluations can be used to reverse the previously charged impairments.	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	<p>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.</p> <p>This presents a risk that new contracts or transaction may give rise to unanticipated impacts in future, or not be detected.</p> <p>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.</p>	TBC	
Arrangements to secure economy, efficiency and effectiveness in the use of resources – Children's services	<p>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.</p> <p>We have held discussions with management to understand the processes and procedures that have been put in place to implement the required changes.</p> <p>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.</p>	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.	TBC	
	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.		
Property Valuations	<p>A number of recommendations and best practice points have been identified from our work:</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.</li> <li>• 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.</li> <li>• The Council should ensure that Non-Operational Assets are appropriately split between Surplus and Assets held for sale.</li> <li>• 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.</li> <li>• 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.</li> </ul>	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**

Our 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	<p>The Narrative Report is expected to address (as relevant to the Council):</p> <ul style="list-style-type: none"> <li>- Organisational overview and external environment;</li> <li>- Governance;</li> <li>- Operational Model;</li> <li>- Risks and opportunities;</li> <li>- Strategy and resource allocation;</li> <li>- Performance;</li> <li>- Outlook; and</li> <li>- Basis of preparation</li> </ul>	<p>We have assessed whether the Narrative Report has been prepared in accordance with CIPFA guidance and have raised a number of comments.</p> <p>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.</p> <p>We will review the changes in the updated version once received.</p>
Annual Governance Statement	<p>The Annual Governance Statement reports that governance arrangements provide assurance, are adequate and are operating effectively.</p>	<p>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.</p>

# 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.

### 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.

### 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.

### 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.

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

**Deloitte LLP**

Newcastle upon Tyne| 17 March 2021

# Appendices



# Audit adjustments

## Unadjusted misstatements

The following uncorrected misstatements have been identified up to the date of this report which we request that you ask management to correct as required by ISAs (UK). Uncorrected misstatements decrease the surplus on the CIES by £8.7 million, (decrease) net assets by £9.2 million, and decrease unusable reserves by £0.5 million.

		Debit/ (credit) CIES £'000	Debit/ (credit) in net assets £'000	Debit/ (credit) prior year reserves £'000	Debit/ (credit) reserves £'000
<b>Misstatements identified in current year</b>					
Impairment of investment - BTS	[1]				
Cr Investment			(£7,775)		
Dr Expenditure		£7,775			
Promenade, Tramways valuation	[2]				
Dr Capital adjustment account				£496	
Cr Property, Plant and equipment			(£496)		
Goodwin	[3]	£900			
Dr Expenditure					
Cr Pension liability			(£900)		
Impairment reserve	[4]				
Dr Revaluation Reserve				£1,198	
Cr Capital adjustment account				(£1,198)	
<b>Total</b>		<b>£8,675</b>	<b>(£9,171)</b>	<b>£496</b>	<b>0</b>

[1] Judgemental misstatement in relation to the value of the Council's investment in BTS.

[2] Judgemental misstatement in relation to the valuation of the Promenade, Tramways asset.

[3] The Council has elected not to include the adjustment in relation to the Goodwin ruling within the pension balance.

[4] Judgemental misstatement in relation to the impact of the Council assessment of reversal of historic impairments.

# Audit adjustments

## Disclosures

### Disclosure misstatements

A number of disclosure deficiencies were identified as part of our audit work, all significant deficiencies have been corrected by management in the final set of accounts.

Disclosure	Summary of disclosure requirement
FV disclosures	We identified some potential differences in the fair value disclosures as set out in Note 20 of the financial statements. As these items are disclosure only, we are not proposing to amend the financial statements. However we do propose that the Council reviews the calculations from the treasury adviser to confirm that the methodology used complies with the accounting standards and CIPFA guidance.
Disclosure of judgement/uncertainty around business loan recoverability	There has been a widespread impact from the Covid-19 pandemic on the UK economy, one of the ways in which this affects the Council's financial statements specifically is an increased risk around the recovery of loans that it has provided companies in Blackpool from the Business Loan Fund. Given the judgemental nature of the assessment of recoverability this should be disclosed within the notes to the accounts.
Reconciliation of liabilities arising from financing activities	Cash and non-cash flows have been aggregated rather than being split into separate columns within the reconciliation.
Prior year Public Health gross expenditure	The prior year public health gross expenditure figure included an immaterial internal recharge amount which was not removed as part of the financial statement preparation process.
Trade Union Facility Time	Under the regulations the Council is required to include the facility time data in the Annual Report as well as publish on the Council's website.

# 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	-
<b>Total audit</b>	<b>84,818</b>	<b>117,818</b>
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
<b>Total assurance services</b>	<b>18,250</b>	<b>18,250</b>
<b>Total fees</b>	<b>103,068</b>	<b>136,068</b>

[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.



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