

# Blackpool Council

20 January 2015

To: Councillors Callow, I Coleman, Galley, Hunter, O'Hara, Smith and L Taylor

The above members are requested to attend the:

## **FINANCE AND AUDIT COMMITTEE**

Thursday, 29 January 2015 at 6.00 pm  
in Committee Room A, Town Hall, Blackpool FY1 1GB

### **A G E N D A**

#### **1 DECLARATIONS OF INTEREST**

Members are asked to declare any interests in the items under consideration and in doing so state:

- (1) the type of interest concerned; and
- (2) the nature of the interest concerned

If any member requires advice on declarations of interests, they are advised to contact the Head of Democratic Governance in advance of the meeting.

#### **2 MINUTES OF THE LAST MEETING HELD ON 27TH NOVEMBER 2014** (Pages 1 - 6)

To agree the minutes of the last meeting held on 27<sup>th</sup> November 2014 as a true and correct record.

#### **3 STRATEGIC RISK REGISTER - RETENTION OF STAFF OF THE RIGHT CALIBRE AND MAINTAIN MORALE** (Pages 7 - 12)

To consider a progress report on the individual risks identified in the Council's Strategic Risk Register.

#### **4 ENGAGEMENT OF CONSULTANTS MONITORING REPORT** (Pages 13 - 18)

To consider a report on the appointment of consultants exceeding £25,000 for the period August to October 2014.

**5 EXTERNAL AUDIT PLAN 2014/2015** (Pages 19 - 48)

To consider KPMG's Audit Plan.

**6 FINANCIAL MONITORING AS AT MONTH 7 2014 - 2015** (Pages 49 - 52)

To consider the level of spending against the Council's Revenue and Capital budgets for the first 7 months to October 2014.

**7 FINANCIAL MONITORING AS AT MONTH 8 2014 - 2015** (Pages 53 - 56)

To consider the level of spending against the Council's Revenue and Capital budgets for the first 8 months to November 2014.

**8 DATE OF NEXT MEETING**

To note that the next meetings of the Committee will be taking place on Friday 13th February 2015 as follows:

9.30am - Finance and Audit Committee and Unions Budget Consultation

11.30am - Finance and Audit Committee and Non-Domestic Ratepayers Budget Consultation

**Venue information:**

First floor meeting room (lift available), accessible toilets (ground floor), no-smoking building.

**Other information:**

For queries regarding this agenda please contact Bernadette Jarvis, Senior Democratic Services Advisor, Tel: (01253) 477212, e-mail [bernadette.jarvis@blackpool.gov.uk](mailto:bernadette.jarvis@blackpool.gov.uk)

Copies of agendas and minutes of Council and committee meetings are available on the Council's website at [www.blackpool.gov.uk](http://www.blackpool.gov.uk).

## MINUTES OF FINANCE AND AUDIT COMMITTEE MEETING - THURSDAY, 27 NOVEMBER 2014

### **Present:**

Councillor Callow (in the Chair)

Councillors

I Coleman

Hunter

Smith

Galley

O'Hara

L Taylor

### **In Attendance:**

Neil Jack, Chief Executive

Carmel McKeogh, Deputy Chief Executive

Steve Thompson, Director of Resources

Tracy Greenhalgh, Chief Internal Auditor

Iain Leviston, Manager, KPMG

Bernadette Jarvis, Senior Democratic Services Adviser

### **1 DECLARATIONS OF INTEREST**

There were no declarations of interest on this occasion.

### **2 MINUTES OF THE LAST MEETING HELD ON 18TH SEPTEMBER 2014**

The Committee agreed that the minutes of the last meeting held on 18<sup>th</sup> September 2014 be signed by the Chairman as a correct record.

### **3 STRATEGIC RISK REGISTER - MAJOR PROJECTS**

Mr Jack, Chief Executive, provided the Committee with an update on the risks identified on the Strategic Risk Register in relation to the delivery of major projects.

He gave examples of ongoing major projects and explained that for all projects a bespoke robust project framework was put in place to ensure that the projects were delivered both on time and with the expected outcomes. He went on to outline the framework which included regular meetings to monitor progress and appropriate representation from all departments, the Corporate Leadership team and relevant Cabinet Member.

Ms Greenhalgh, Chief Internal Auditor, added that evidence had shown that the most successful projects had adopted the framework and had a project risk register in place from the outset. Examples of successful projects were outlined which included Project 30 and the transfer of Public Health responsibilities to the Authority. A less successful project had been the Waste PFI where it would have been helpful to have had the project plan in place from the start. Ms Greenhalgh explained the improvements that had been undertaken to the way in which projects were managed with emphasis on delivery on time and satisfactory outcomes.

In response to questions from Members relating to the success of Project 30 in reducing

**MINUTES OF FINANCE AND AUDIT COMMITTEE MEETING - THURSDAY, 27 NOVEMBER  
2014**

the amount paid in accident claims and the potential to attract future funding, it was reported that it was difficult to assess due to the unknown impact from the Jackson reforms introduced in July 2013 and the length of time taken to settle claims, although there had been a reduction in the number of claims in quarter two compared to the same period last year. Ms Greenhalgh confirmed that recent analysis had shown that the Council was in a much stronger position following Project 30 to defend claims and demonstrate better management of its highways. However, it was too early to determine whether the reduction in claims would be sufficient to reduce settlement figures.

Responding to a question from the Committee, Ms Greenhalgh reported that the Jackson reforms had introduced timescales for both parties to deal with claims and fines for non-compliance and as such it was expected that claims relating to incidents after July 2013 would be dealt with quicker and more economically.

The Committee agreed to note the report.

Background papers: None

**4 STRATEGIC RISK REGISTER - PUBLIC SERVICES NETWORK**

Mrs McKeogh, Deputy Chief Executive, provided the Committee with an update on the risks identified on the Strategic Risk Register in relation to the Public Services Network (PSN) compliance requirement to restrict access to the network for unmanaged devices. She explained the importance for the Council in maintaining PSN compliance status to enable continued access to shared networks.

The Committee was advised of the current initiatives in place to ensure PSN compliance and maintain the safety and security of the Council's network. Mrs McKeogh explained how the change from personal devices to managed devices had reduced the risk to the network. She reported that through encryption and remote disabling, it had also resulted in the Council maintaining its control of the devices and enhanced security of the network.

Mrs McKeogh advised Members of the enormity of the exercise that was currently underway to provide all staff with managed devices. She reported that the project was approximately half way through being completed and that the timescales for delivery of the devices had been aligned to the relocation of staff. She added that the former staff portal had been disabled and replaced by a more secure method of accessing the Council's network through encrypted devices and two-factor identification.

In response to questions relating to the Members Portal, Ms McKeogh confirmed that a pilot was underway to provide managed devices to Members but there was less urgency than staff as Members generally had access to information that was widely available rather than sensitive and confidential data.

The Committee agreed to note the report.

Background papers: None

## **MINUTES OF FINANCE AND AUDIT COMMITTEE MEETING - THURSDAY, 27 NOVEMBER 2014**

### **5 ANNUAL AUDIT LETTER 2013/14**

The Annual Audit Letter 2013 /2014 was presented to Committee by Iain Leviston, Manager, KPMG. He explained that the purpose of the report was to provide a summary of the reports that had been brought to Committee throughout the year and to outline the key findings from the 2013/14 audit of the Council.

Mr Leviston acknowledged the hard work undertaken by Mr Thompson and his team in providing the comprehensive information required to Department of Communities and Local Government which enabled KPMG to confirm that the information was consistent with its understanding and issue a certificate on 30<sup>th</sup> September to confirm the conclusion of the audit in accordance with the requirements of the Audit Commission.

The Committee agreed to note the report.

Background papers: None

### **6 AUDIT COMMISSION - PROTECTING THE PUBLIC PURSE 2014**

Ms Greenhalgh, Chief Internal Auditor, presented the Committee with a summary of the key findings of the Audit Commission's recent Protecting the Public Purse (2014) publication. She advised Members that with the transfer of responsibility for benefit fraud from the Council to the DWP, the key focus in the future for the Council will be on non-benefit fraud, which included council tax discount fraud, right to buy fraud, social care fraud and disabled parking fraud.

The Committee was informed of a number of recommendations from the report which included the protection and enhancement of investigative resources and being alert to the risk of organised crime and fraud. The report also recommended increased focus on prevention and deterrence of fraud and the use of legislation such as the Proceeds of Crime Act to recover losses as a result of fraud. Ms Greenhalgh confirmed that all the areas identified from the report would be incorporated into the plans for next year.

A further recommendation was that Elected Members responsible for audit and governance to review the counter fraud arrangements through completion of a checklist and Ms Greenhalgh suggested that it might be beneficial for the Committee to undertake this exercise at a separate session.

In response to questions from the Committee, Ms Greenhalgh reported on the Council's unsuccessful bid for funding to support efforts to refocus its counter-fraud activities on non-benefit fraud and as a consequence further planning was required to establish how to deal with non-benefit fraud going forward. Members were informed of the benefits of joint working with the Department for Work and Pensions (DWP) on detecting incidents of fraud. Mr Thompson advised of the reduction of the systems shared by the Council and the DWP following the introduction of the Universal Credit benefit scheme.

The Committee agreed to note the findings of the Protecting the Public Purse (2014) publication.

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2014**

Background papers: None

**7 FINANCIAL PERFORMANCE MONITORING AS AT MONTH 5 2014/2015**

Mr Thompson, Director of Resources, presented the Financial Performance Monitoring Report as at Month 5. He advised Members that although there had been an overall improvement of £329k from the previous month, the working balances were just less than £4million against the £6million target for the end of the financial year.

The Committee was advised of the continual work undertaken to reduce the overspends and the expectation that there would be some improvement but that it was unlikely that the working balance target of £6million would be achieved.

The Committee agreed to note the report.

Background papers: None

**8 FINANCIAL PERFORMANCE MONITORING AS AT PERIOD 6 2014/2015**

Mr Thompson presented the Financial Performance Monitoring Report as at period 6. The Committee was advised that although there had been a further improvement of £152k from period 5, it was still predicted that the target of £6million working balances would not be achieved. He advised that early indication for period 7 showed a similar trend.

Mr Thompson reassured the Committee that regular meetings were being held with individual Directors regarding the budget. The particular areas of significant pressure continued to be Children's Services, Adult Services, Community and Environmental Services and Parking Services.

It was reported that there had been a reduction in income collection for both Council Tax and Business Rates compared with the same period last year and a report by the Audit Commission had indicated that it was a national problem. Mr Thompson confirmed that continued efforts were being made to seek ways to improve collection rates and recover arrears.

In response to questions from the Committee, Mr Thompson acknowledged the financial benefits for the Council from the new Sainsburys, the Harbour and Bickerstaffe House. However, there remained the risk of significant financial impact from the outcome of successful appeals following the localisation of business rates.

Following concerns raised by Members regarding the impact of Looked After Children on Children's Services budget, Mr Jack highlighted the level of publicity of child abuse that could have attributed to the increased number of referrals. He also considered that the high levels of vulnerable families in Blackpool along with high rates of domestic violence and alcohol and drug abuse could be contributory factors in the number of referrals to Children's Services.

The Committee agreed to note the report.

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2014**

Background papers: None

**9 TREASURY MANAGEMENT HALF-YEARLY PROGRESS REPORT TO THE 30TH SEPTEMBER  
2014**

The Committee was presented with the Treasury Management progress report as at 30<sup>th</sup> September 2014. Mr Thompson reported on the stable interest rates and the expectation that this trend would continue into next year.

Mr Thompson presented a summary of the Council's borrowing activities for the first half of the financial year and advised that the total borrowings had reduced to £156million. He reported on ongoing negotiations with Lancashire County Council in relation to maintaining the current position with regards to the Local Government Reorganisation (LGR) debt, the outcome of which would be known in the next couple of months.

Members were advised of the favourable forecast outturn for Treasury Management in 2014/15 to just below £1.7million due to lower financing costs on long term debt and lower interest rates for short term loans. The transactions for the last six months of the financial year were presented and explained that the £400million total reflected the reduced budget and the recycling nature of investing and lending.

The Committee agreed to note the report.

Background papers: None

**10 RISK SERVICES QUARTER 2 REPORT**

Ms Greenhalgh reported on the work undertaken by Risk Services in quarter 2 of this financial year. Members were advised of the key service developments which included preparations to ensure the Council's participation in the National Fraud Initiative Programme for 2015/16 and a Corporate business continuity exercise which was expected to be undertaken early in the New Year.

Ms Greenhalgh presented the Performance Indicators and highlighted the success of the Investigations Team in recovering £268k of overpayments. She reported an ongoing concern in relation to the completion of business continuity plans and assured Members that this was continuing to be addressed.

A summary of the audit work undertaken was presented with assurance statements issued against each area. Ms Greenhalgh confirmed that follow-up action would be taken to ensure that effective controls were in place for areas that had been deemed inadequate.

Responding to questions from the Committee, Ms Greenhalgh advised on the various methods adopted to seek recovery of overpayments either by fraud or error. She reported that there had been a decrease in performance in relation to benefit overpayment recovery rates and that this was due to a combination of factors which included people having less money and resource issues within the benefits team. She

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2014**

confirmed that the benefits team were aware of the situation and were working to address it.

In response to a request from a Member of the Committee, Ms Greenhalgh agreed to provide a year on year analysis of benefit recoveries in future reports to the Committee. She also agreed to include further explanation of Performance Indicators in future reports.

The Committee agreed to note the report.

Background papers: None

### **11 INTERNAL AUDIT BENCHMARKING**

Ms Greenhalgh explained that periodically the Council participates in the CIPFA benchmarking exercise relating to internal audit. She presented the outcome of the recent exercise which had shown that the Council was at a similar level to the other Authorities in terms of cost of the service and pay scales for audit staff. She reported on the high number of qualified staff in Blackpool's audit team compared to other Authorities which demonstrated a positive commitment to the service.

The exercise had also highlighted that the audit team undertook less work on risk management process and performance management compared with the average for other Local Authorities and advised Members that this would be considered for the 2015/16 audit plan.

The Committee agreed to note the report.

Background papers: None

### **12 DATE OF NEXT MEETING**

Members noted the date of the next meeting as Thursday 29<sup>th</sup> January 2015 at 6.00pm in Committee Room A at the Town Hall and the proposed items for the meeting as:

- Financial Performance Monitoring Report
- Strategic Risk Register – Retention of staff of the right calibre and maintain morale
- Annual Audit Fee Letter 2013/2014

### **Chairman**

(The meeting ended 7.03 pm)

Any queries regarding these minutes, please contact:  
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<b>Report to:</b>	<b>FINANCE AND AUDIT COMMITTEE</b>
<b>Relevant Officer:</b>	Carmel McKeogh, Deputy Chief Executive
<b>Date of Meeting</b>	29 <sup>th</sup> January 2015

## **STRATEGIC RISK REGISTER – RETENTION OF STAFF OF THE RIGHT CALIBRE AND MAINTAIN MORALE**

### **1.0 Purpose of the report:**

- 1.1 To inform members by way of a presentation on the 29<sup>th</sup> January 2015 which will explain all that is being done by the Council to ensure that it retains high calibre staff and maintain morale in line with the Council's commitment to reduce the risk of this impacting on the performance of the organisation.

### **2.0 Recommendation(s):**

- 2.1 To note the content of the presentation and scrutinise the actions undertaken to ensure they are fit for purpose.

### **3.0 Reasons for recommendation(s):**

- 3.1 To ensure that the Council is satisfactorily managing and minimising the impact of its identified strategic risks.

3.2a Is the recommendation contrary to a plan or strategy adopted or approved by the Council? No

3.2b Is the recommendation in accordance with the Council's approved budget? Yes

### **3.3 Other alternative options to be considered:**

Managing risks is a key issue for the council and as this issue has been identified as a key strategic risk there is no option other than to minimise and mitigate the risk.

**4.0 Council Priority:**

4.1 The relevant Council Priority

“Deliver quality services through a professional, well-rewarded and motivated workforce “

**5.0 Background Information**

5.1 The Council has identified that it is key that it retains staff of the right calibre to perform its functions and that the morale of the workforce is positive. This is particularly important in today’s climate of financial pressure where employees are under increasing pressure to do more with less and where in many cases demand is ever increasing.

5.2 The Council takes very seriously its commitment to staff and has undertaken a range of activities to demonstrate that such as, regularly monitoring how people feel about the organisation, managing and learning from labour turnover and developing staff and leaders for the future. The Council has made a conscious decision to invest in the development of staff despite the financial pressures and it is clear that the significant changes in local government services cannot be achieved without high calibre, skilled and motivated staff.

5.3 A presentation will be provided to the Committee by the Deputy Chief Executive which outlines the programmes undertaken to date and the plans for the future.

5.4 Does the information submitted include any exempt information? No

**5.5 List of Appendices:**

Appendix 3a: Excerpt from Strategic Risk Register

**6.0 Legal considerations:**

6.1 The management of employee related matters is governed by employment law and the Council will always work within that legal framework. However, most of what is undertaken by the authority in respect of maintaining morale and keeping good quality staff goes over and above that which is required by law and sits within the context of excellent employment and retention practices.

**7.0 Human Resources considerations:**

7.1 This report and the presentation to members are entirely related to human resources matters.

**8.0 Equalities considerations:**

8.1 Equalities law and employment law are intertwined in many ways and all that the Council does in terms of supporting the Council's employees is considered in terms of its equality implications. The workforce of the Council is subject to an equalities review each year which monitors the progress of the authority in terms of how closely the workforce profile mirrors the community that the Council serves.

**9.0 Financial considerations:**

9.1 The actions taken to maintain morale and retain staff must be taken within the agreed budget parameters.

**10.0 Risk management considerations:**

10.1 This paper and the presentation to Committee relate to how the Council manages the strategic risk around retaining the right calibre of staff and maintain morale.

**11.0 Ethical considerations:**

11.1 Behaving and being recognised as a good employer who values and supports its workforce is important to the council. This issue is a priority of the organisation and fits with its values.

**12.0 Internal/ External Consultation undertaken:**

12.1 Not applicable

**13.0 Background papers:**

13.1 None

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No.	Risk Category	Impacts / Consequences	Opportunity	Score			Existing Controls	Net Risk Score			New / Developing Controls	Corporate Priority	Risk Owner / Risk Manager	Target Date	Date Presented at Finance and Audit Committee
				I	L	GS		I	L	NS					
16	Local - inability to retain staff of the right calibre and maintain morale	<p>1) Inadequate resources to deliver corporate objectives</p> <p>2) Workplace stress</p> <p>3) Employee credibility brought into question</p> <p>4) Decreased motivation</p> <p>5) Staff Turnover</p>	<p>1) Effective IPA processes</p> <p>2) Employee commitment</p> <p>3) Retention of suitably qualified staff</p>	4	4	16	<p>1) Equal Pay</p> <p>2) Performance appraisal</p> <p>3) Investors in People status and related quality standards</p> <p>4) IPA roll out completed</p> <p>5) Coaching programme underway</p> <p>6) Development programmes implemented such as coaching, mentoring and aspiring managers programme</p> <p>7) Survey undertaken to engage staff over future development of benefits and new car leasing scheme introduced</p> <p>8) Audit undertaken to review resilience and governance given continuing staff reductions</p>	3	3	9	<p>1) Continue to develop coordinated approach to staff benefits and explore opportunities for new staff benefits linked to the Central Business District</p>	9	<p>Owner: CLT Manager</p> <p>Manager: Deputy Chief Executive</p>	Ongoing	29th January 2015

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<b>Report to:</b>	<b>FINANCE AND AUDIT COMMITTEE</b>
<b>Relevant Officer:</b>	Steve Thompson, Director of Resources
<b>Date of Meeting</b>	29 <sup>th</sup> January 2015

## ENGAGEMENT OF CONSULTANTS MONITORING REPORT

### 1.0 Purpose of the report:

1.1 The Committee to consider the appointment of consultants exceeding £25,000 for the period 1<sup>st</sup> August 2014 to 31<sup>st</sup> October 2014.

### 2.0 Recommendation(s):

2.1 To note the report and make any recommendations as considered appropriate.

### 3.0 Reasons for recommendation(s):

3.1 To enable Members to monitor the appointment of consultants exceeding £25,000 for the period 1<sup>st</sup> August 2014 to 31<sup>st</sup> October 2014 and make recommendations if appropriate.

3.2a Is the recommendation contrary to a plan or strategy adopted or approved by the Council? No

3.2b Is the recommendation in accordance with the Council's approved budget? Yes

3.3 Other alternative options to be considered:

To not receive the report but this would prevent the Committee from effective monitoring of the appointment of consultants in excess of £25,000.

#### **4.0 Council Priority:**

##### **4.1** The relevant Council Priority is

“Deliver quality services through a professional, well-rewarded and motivated workforce “

#### **5.0 Background Information**

5.1 Following a review by the Finance and Audit Committee of the Council’s arrangements for the appointment and use of consultants, the Executive at its meeting on 23<sup>rd</sup> June 2010 approved a number of recommendations which are intended to improve the control and monitoring of the use of external consultants and to help the Council to achieve a number of goals outlined in the Council’s Strategy including the achievement of value for money.

5.2 The Finance and Audit Committee has requested regular reports in order to monitor all consultancy commissions for compliance with these recommendations:

- all proposed appointments of consultants exceeding £25,000 be reported to the Cabinet Member by the Assistant Chief Executive detailing the nature and business case relating to the appointment in line with corporate priorities.
- in the case of ‘long term’ projects, progress reports to be submitted to the Finance and Audit Committee at six monthly intervals by the relevant Assistant Chief Executive for monitoring against corporate priorities and business cases and to enable post project evaluation.
- The Head of Procurement and Projects to co-ordinate the submission of reports based upon information provided by the relevant officers;

##### **5.3 Report**

The Committee is asked to note that all Service Directors have been contacted for information. Community and Environmental Services have submitted a return for the appointment of a consultant during the period of 1st August 2014 to 31<sup>st</sup> October 2014 and this return has been attached at Appendix 4(a). All other departments have reported a nil return though Cultural Services have been unable to provide a definitive response. Any appointments in this area will therefore, be reported at the next meeting.

The previous report to the Committee did not identify any ‘long-term appointments’ so there is nothing to report for monitoring in this respect.



A further report will be submitted to Finance and Audit Committee (only if any appointments have been made) on 5<sup>th</sup> March 2015 to include a list of any appointments (if applicable) made between 1<sup>st</sup> November 2014 and 31<sup>st</sup> January 2015.

5.4 Does the information submitted include any exempt information? No

**5.5 List of Appendices:**

Appendix 4(a): Appointment of Consultants over £25,000.

**6.0 Legal considerations:**

6.1 None.

**7.0 Human Resources considerations:**

7.1 None.

**8.0 Equalities considerations:**

8.1 None.

**9.0 Financial considerations:**

9.1 As outlined in the Report.

**10.0 Risk management considerations:**

10.1 None.

**11.0 Ethical considerations:**

11.1 None.

**12.0 Internal/External Consultation undertaken:**

12.1 None

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**Appointment of Consultants over £25,000**

<u>Item</u>	<u>Directorate/Heads of Service</u>	<u>Consultant</u>	<u>Outline of work</u>	<u>Value (£,000)</u>	<u>Cabinet Member approved</u> Y/N	<u>Long Term - future reports needed</u> Y/N
1	Community and Environmental Services (Capital Projects)	Royal Haskoning DHV	Consultant Drainage and Attenuation Engineers	£25,500	Y	N
2						
3						
4						
5						
6						

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<b>Report to:</b>	<b>FINANCE AND AUDIT COMMITTEE</b>
<b>Relevant Officer:</b>	Steve Thompson, Director of Resources
<b>Date of Meeting:</b>	29 <sup>th</sup> January 2015

## EXTERNAL AUDIT PLAN 2014/2015

### 1.0 Purpose of the report:

1.1 To consider KPMG's Audit Plan 2014/2015.

### 2.0 Recommendation(s):

2.1 To note the plan and make any recommendations as considered appropriate.

### 3.0 Reasons for recommendation(s):

3.1 To ensure overview of the Council's External Audit Plan.

3.2a Is the recommendation contrary to a plan or strategy adopted or approved by the Council? No

3.2b Is the recommendation in accordance with the Council's approved budget? Yes

3.3 Other alternative options to be considered:

None

### 4.0 Council Priority:

4.1 The relevant Council Priority is:

"Deliver quality services through a professional, well-rewarded and motivated workforce"

**5.0 Background Information**

5.1 The Council's external auditors are required to review and report on the Council's:

- Financial statements (including the Annual Governance Statement), providing an opinion on the accounts and:
- Use of Resources, concluding on the arrangements in place for securing economy, efficiency and effectiveness in the use of resources (value for money conclusion)

5.2 The audit planning process and risk assessment is an on-going process and the assessment and fees in the plan will be kept under review and updated where required.

5.3 Does the information submitted include any exempt information? No

5.4 **List of Appendices:**  
Appendix 5a: External Audit Plan

**6.0 Legal considerations:**

6.1 None

**7.0 Human Resources considerations:**

7.1 See attached report.

**8.0 Equalities considerations:**

8.1 None

**9.0 Financial considerations:**

9.1 See attached report.

**10.0 Risk management considerations:**

10.1 None

**11.0 Ethical considerations:**

11.1 None

**12.0 Internal/ External Consultation undertaken:**

12.1 None

**13.0 Background papers:**

13.1 None

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*cutting through complexity*

# External Audit Plan 2014/15

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**The contacts at KPMG in connection with this report are:**

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Trevor Rees, the appointed engagement lead to the Authority, on 0161 246 4000, or by email to [trevor.rees@kpmg.co.uk](mailto:trevor.rees@kpmg.co.uk), who will try to resolve your complaint. Trevor is also the national contact partner for all of KPMG's work with the Audit Commission. If you are dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 1<sup>st</sup> Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to [complaints@audit-commission.gsi.gov.uk](mailto:complaints@audit-commission.gsi.gov.uk). Their telephone number is 03034448330.

This document describes  
how we will deliver our audit  
work for Blackpool Council.

### Scope of this report

This document supplements our *Audit Fee Letter 2014/15* presented to you in May 2014. It describes how we will deliver our financial statements audit work for Blackpool Council ('the Authority'). It also sets out our approach to value for money (VFM) work for 2014/15.

We are required to satisfy ourselves that your accounts comply with statutory requirements and that proper practices have been observed in compiling them. We use a risk based audit approach.

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary.

### Statutory responsibilities

Our statutory responsibilities and powers are set out in the *Audit Commission Act 1998* and the Audit Commission's *Code of Audit Practice*.

The Audit Commission will close at 31 March 2015. However our audit responsibilities under the *Audit Commission Act 1998* and the *Code of Audit Practice* in respect of the 2014/15 financial year remain unchanged.

The *Code of Audit Practice* summarises our responsibilities into two objectives, requiring us to audit/review and report on your:

- *financial statements (including the Annual Governance Statement)*: providing an opinion on your accounts; and
- *use of resources*: concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

The Audit Commission's *Statement of Responsibilities of Auditors and Audited Bodies* sets out the respective responsibilities of the auditor and the Authority.

The Audit Commission will cease to exist on 31 March 2015. Details of the new arrangements are set out in Appendix 4. The Authority can expect further communication from the Audit Commission and its successor bodies as the new arrangements are established. This plan restricts itself to reference to the existing arrangements.

### Structure of this report

This report is structured as follows:

- Section 2 includes our headline messages, including any key risks identified this year for the financial statements audit and Value for Money arrangements Conclusion.
- Section 3 describes the approach we take for the audit of the financial statements.
- Section 4 provides further detail on the financial statements audit risks.
- Section 5 explains our approach to VFM arrangements work and sets out our initial risk assessment for the VFM conclusion.
- Section 6 provides information on the audit team, our proposed deliverables, the timescales and fees for our work.

### Acknowledgements

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

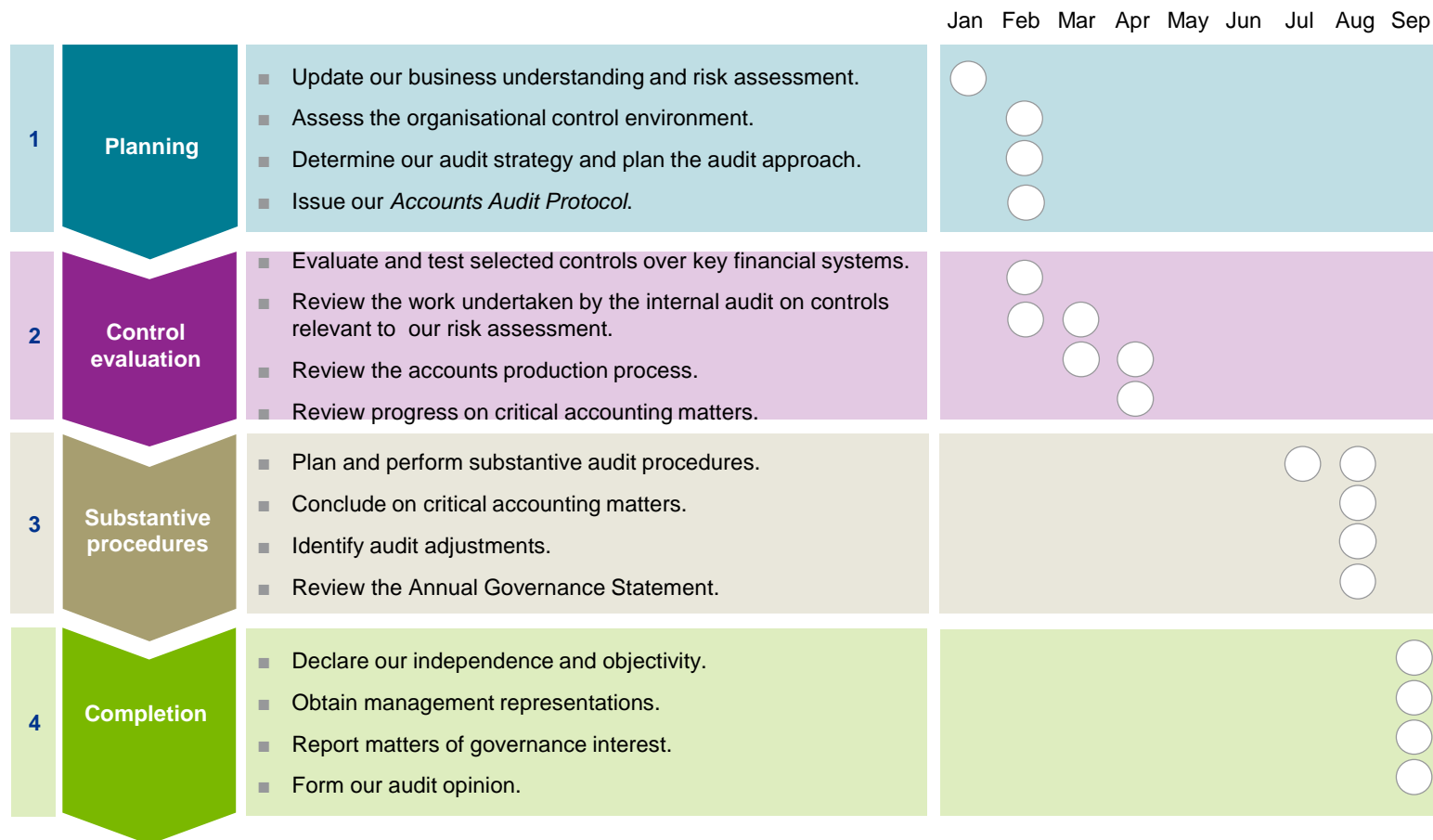
<p><b>Audit approach</b></p>	<p>Our overall audit approach remains similar to last year with no fundamental changes . Our work is carried out in four stages and the timings for these, and specifically our on site work, have been agreed with Director of Resources and the Chief Accountant.</p> <p>Our audit strategy and plan remain flexible as risks and issues change throughout the year. We will review the initial assessments presented in this document throughout the year and should any new risks emerge we will evaluate these and respond accordingly.</p>
<p><b>Key financial statements audit risks</b></p>	<p>We have completed our initial risk assessments for the financial statements audits and have identified the management override of controls as one of the two standard audit risks that we are not able to rebut at the Authority. We have also identified three areas of other audit focus where additional attention will be placed by the audit team; these are:</p> <ul style="list-style-type: none"> <li>■ payroll;</li> <li>■ property, plant and equipment; and</li> <li>■ cash.</li> </ul> <p>These are described in more detail on pages 9 and 10. We will assess the Authority's progress in addressing the risk and the areas of other audit focus as part of our interim work and conclude this work at year end.</p>
<p><b>VFM audit approach</b></p>	<p>We have completed our initial risk assessment for the VFM conclusion and have identified one potential VFM risk at this stage. However risk assessment is an ongoing process. If we identify any new VFM risks during this process we will communicate this to you:</p> <ul style="list-style-type: none"> <li>■ Savings plans – the Authority needs to continue to make significant savings in 2016/7 and 2017/18 even if the savings planned for 2015/16 are delivered in full.</li> </ul> <p>These are described in more detail on page 15. We will assess these risk areas as part of our interim work and conclude this work at year end.</p>
<p><b>Audit team, deliverables, timeline and fees</b></p>	<p>There has been no change to the audit team from last year.</p> <p>Our main year end audit is currently planned to take place in August 2015. Upon conclusion of our work we will again present our findings to you in our <i>Report to Those Charged with Governance (ISA 260 Report)</i>.</p> <p>The planned fee for the 2014/15 audit is £146,870. This is £1,070 higher than the position set out in our <i>Audit Fee Letter 2014/15</i> because of the work required on NDR balances.</p>

We undertake our work on your financial statements in four key stages during 2015:

- **Planning** (January to February).
- **Control Evaluation** (February to April).
- **Substantive Procedures** (July to August).
- **Completion** (September).

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We have summarised the four key stages of our financial statements audit process for you below:



During January and February 2015 we complete our planning work.

We assess the key risks affecting the Authority's financial statements and discuss these with officers.

We assess if there are any weaknesses in respect of central processes, including the Authority's IT systems, that would impact on our audit.

We will issue our Accounts audit protocol following completion of our planning work.

Our planning work takes place in January and February 2015. This involves the following aspects:

### Planning

- Update our business understanding and risk assessment including fraud risk.
- Assess the organisational control environment.
- Determine our audit strategy and plan the audit approach.
- Issue our *Accounts Audit Protocol*.

### Business understanding and risk assessment

We update our understanding of the Authority's operations and identify any areas that will require particular attention during our audit of the Authority's financial statements.

We identify the key risks including risk of fraud affecting the Authority's financial statements. These are based on our knowledge of the Authority, our sector experience and our ongoing dialogue with Authority staff. Any risks identified to date through our risk assessment process are set out in this document. Our audit strategy and plan will, however, remain flexible as the risks and issues change throughout the year. It is the Authority's responsibility to adequately address these issues. We encourage the Authority to raise any technical issues with us as early as possible so that we can agree the accounting treatment in advance of the audit visit.

We meet with the finance team on a quarterly basis to consider issues and how they are addressed during the financial year end closedown and accounts preparation.

### Organisational control environment

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would impact on our audit.

In particular risk management, internal control and ethics and conduct have implications for our financial statements audit. The scope of the relevant work of your internal auditors also informs our risk assessment.

The Authority relies on information technology (IT) to support both financial reporting and internal control processes. In order to satisfy ourselves that we can rely on the use of IT, we test controls over access to systems and data, system changes, system development and computer operations. Whilst we undertake some general IT controls work, we also focus on testing the specific applications and reports that are pivotal to the production of the financial statements.

### Audit strategy and approach to materiality

Our audit is performed in accordance with International Standards on Auditing (ISAs) (UK and Ireland). The Engagement Lead sets the overall direction of the audit and decides the nature and extent of audit activities. We design audit procedures in response to the risk that the financial statements are materially misstated. The materiality level is a matter of professional judgement and is set by the Engagement Lead.

In accordance with ISA 320 (UK&I) '*Audit materiality*', we plan and perform our audit to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. Information is considered material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.

### Accounts audit protocol

At the end of our planning work we will issue our *Accounts Audit Protocol*. This important document sets out our audit approach and timetable. It also summarises the working papers and other evidence we require the Authority to provide during our interim and final accounts visits.

During February to April 2015 we will complete our interim audit work.

We assess if controls over key financial systems were effective during 2014/15.

We work with your finance team to enhance the efficiency of the accounts audit.

We will report any significant findings arising from our work to the Finance and Audit Committee.

Our on site interim visit will be completed during February 2015. During this time we will complete work in the following areas:

Control Evaluation

- Evaluate and test controls over key financial systems identified as part of our risk assessment.
- Review the work undertaken by the internal audit function on controls relevant to our risk assessment.
- Review the accounts production process.
- Review progress on critical accounting matters.

### Critical accounting matters

We will discuss the work completed to address the specific risks we identified at the planning stage. Wherever possible, we seek to review relevant workings and evidence and agree the accounting treatment as part of our interim work.

If there are any significant findings arising from our interim work we will present these to the Finance and Audit Committee in March 2015.

### Controls over key financial systems

We update our understanding of the Authority's key financial processes where our risk assessment has identified that these are relevant to our final accounts audit and where we have determined that this is the most efficient audit approach to take. We confirm our understanding by completing walkthroughs for these systems. We then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

### Review of internal audit

Where our audit approach is to undertake controls work on financial systems, we seek to review any relevant work internal audit have completed to minimise unnecessary duplication of work. This will inform our overall risk assessment process. Our audit fee is set on the assumption that we can place reliance on their work. We have a joint working protocol and have met with the Head of Internal Audit to discuss the principles and timetables for the managed audit process for 2014/15.

**During August 2015 we will be on site for our substantive work.**

**We complete detailed testing of accounts and disclosures and conclude on critical accounting matters, such as specific risk areas. We then agree any audit adjustments required to the financial statements.**

**We also review the Annual Governance Statement for consistency with our understanding.**

**We will present our *ISA 260 Report* to the Finance and Audit Committee in September 2015.**

Our final accounts visit on site has been provisionally scheduled for August 2015. During this time, we will complete the following work:

### Substantive Procedures

- Plan and perform substantive audit procedures.
- Conclude on critical accounting matters.
- Identify and assess any audit adjustments.
- Review the Annual Governance Statement.

### Substantive audit procedures

We complete detailed testing on significant balances and disclosures. The extent of our work is determined by the Engagement Lead based on various factors such as our overall assessment of the Authority's control environment, the effectiveness of controls over individual systems and the management of specific risk factors.

### Critical accounting matters

We conclude our testing of key risk areas identified at the planning stage and any additional issues that may have emerged since.

We will discuss our early findings of the Authority's approach to address the key risk areas with the Director of Resources and the Chief Accountant in August 2015, prior to reporting to the Finance and Audit Committee in September 2015.

### Audit adjustments

During our on site work, we will meet with the Chief Accountant on a weekly basis to discuss the progress of the audit, any differences found and any other issues emerging.

At the end of our on site work, we will hold a closure meeting, where we will provide a schedule of audit differences and agree a timetable for the completion stage and the accounts sign off.

To comply with auditing standards, we are required to report uncorrected audit differences to the Finance and Audit Committee. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

### Annual Governance Statement

We are also required to satisfy ourselves that your Annual Governance Statement complies with the applicable framework and is consistent with our understanding of your operations. Our review of the work of internal audit and consideration of your risk management and governance arrangements are part of this.

We report the findings of our audit of the financial statements work in our *ISA 260 Report*, which we will issue in September 2015.



**In addition to the financial statements, we also review the Authority's Whole of Government Accounts pack.**

**We may need to undertake additional work if we receive objections to the accounts from local electors.**

**We will communicate with you throughout the year, both formally and informally.**

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### **Whole of government accounts (WGA)**

We are required to review and issue an opinion on your WGA consolidation to confirm that this is consistent with your financial statements. The audit approach has been agreed with HM Treasury and the National Audit Office. Deadlines for production of the pack and issue of our opinion on the pack have not yet been confirmed.

### **Elector challenge**

The Audit Commission Act 1998 gives electors certain rights. These are:

- the right to inspect the accounts;
- the right to ask the auditor questions about the accounts; and
- the right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised.

The costs incurred in responding to specific questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the Audit Commission's fee scales.

### **Reporting and communication**

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the finance team and the Finance and Audit Committee. Our deliverables are included on page 17.

### **Independence and objectivity confirmation**

Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The standards define 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case this is the Finance and Audit Committee.

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standard 1 *Integrity, Objectivity and Independence* requires us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

Appendix 1 provides further detail on auditors' responsibilities regarding independence and objectivity.

### **Confirmation statement**

We confirm that as of 29 January 2015 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.

In this section we set out our assessment of the significant risks or other key areas of audit focus of the Authority's financial statements for 2014/15.

We are required to consider two standard risks at every organisation, but are able to rebut one of these at the Authority.

We have identified three other areas that, while not significant risks, will be areas of other audit focus.

We have outlined the impact of these on our audit plan.

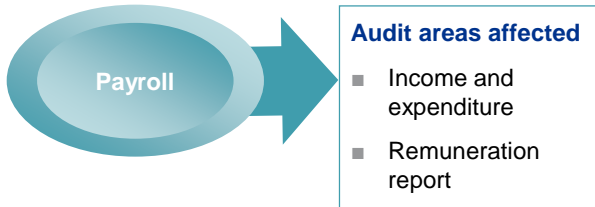
Professional standards require us to consider two standard risks for all organisations. We are not elaborating on these standard risks in this plan but consider them as a matter of course in our audit and will include any findings arising from our work in our *ISA 260 Report*.

- Management override of controls – Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.
- Fraudulent revenue recognition – We do not consider this to be a significant risk for local authorities as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.


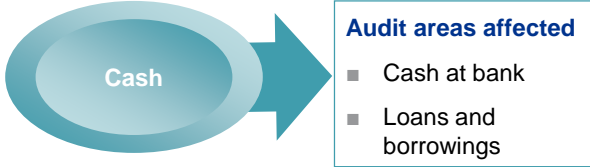
Appendix 3 covers more details on our assessment of fraud risk.

Our initial assessment has not identified any risks that are specific to the Authority. There are however certain areas of the audit where we will apply additional audit focus.

We will revisit our assessment throughout the year and should any risks present themselves we will adjust our audit strategy as necessary.

Area of other audit focus	Impact on audit
	<p>The size of the Authority's payroll costs require this to be an area of audit focus, despite the routine nature of many of the transactions.</p> <p><b>Our proposed audit work</b></p> <p>We will compare the payroll costs recognised in the general ledger to our expectations, based on our knowledge of the force, to ensure that the overall payroll costs are reasonable.</p> <p>Specific elements of the remuneration report will be agreed back to payroll records held by the force.</p>

For each key risk area we have outlined the impact on our audit plan.

Area of other audit focus	Impact on audit
	<p>The size and unique nature of the Authority's fixed asset balances requires this to be an area of audit focus.</p> <p><b>Our proposed audit work</b></p> <p>We will review the valuation exercise undertaken by the Authority as at 31 March 2015 to ensure that increases in asset valuations are recognised appropriately in the Authority's balance sheet.</p> <p>We will also focus on fixed asset additions to ensure that they have been accounted for correctly within the financial statements.</p>
	<p>Cash is an area that, due to its nature, will always be an area of special audit focus.</p> <p><b>Our proposed audit work</b></p> <p>We will verify the bank and loan balances held by the Authority to ensure that these are supported by third party confirmations.</p>

Our approach to VFM work follows guidance provided by the Audit Commission.

### Background to approach to VFM work

In meeting their statutory responsibilities relating to economy, efficiency and effectiveness, the Commission's *Code of Audit Practice* requires auditors to:

- plan their work based on consideration of the significant risks of giving a wrong conclusion (audit risk); and
- carry out only as much work as is appropriate to enable them to give a safe VFM conclusion.

To provide stability for auditors and audited bodies, the Audit Commission has kept the VFM audit methodology unchanged from last year. There are only relatively minor amendments to reflect the key issues facing the local government sector.

The approach is structured under two themes, as summarised below.

Specified criteria for VFM conclusion	Focus of the criteria	Sub-sections
The organisation has proper arrangements in place for securing <b>financial resilience</b> .	The organisation has robust systems and processes to: <ul style="list-style-type: none"> <li>■ manage effectively financial risks and opportunities; and</li> <li>■ secure a stable financial position that enables it to continue to operate for the foreseeable future.</li> </ul>	<ul style="list-style-type: none"> <li>■ Financial governance</li> <li>■ Financial planning</li> <li>■ Financial control</li> </ul>
The organisation has proper arrangements for challenging how it <b>secures economy, efficiency and effectiveness</b> .	The organisation is prioritising its resources within tighter budgets, for example by: <ul style="list-style-type: none"> <li>■ achieving cost reductions; and</li> <li>■ improving efficiency and productivity.</li> </ul>	<ul style="list-style-type: none"> <li>■ Prioritising resources</li> <li>■ Improving efficiency and productivity</li> </ul>

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

**Overview of the VFM audit approach**

The key elements of the VFM audit approach are summarised below.



Each of these stages are summarised further below.

VFM audit stage	Audit approach
VFM audit risk assessment	<p>We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Authority. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the <i>Code of Audit Practice</i>.</p> <p>In doing so we consider:</p> <ul style="list-style-type: none"> <li>the Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks;</li> <li>information from the Audit Commission's VFM profile tool ;</li> <li>evidence gained from previous audit work, including the response to that work; and</li> <li>the work of other inspectorates and review agencies.</li> </ul>

Our VFM audit will draw heavily on other audit work which is relevant to our VFM responsibilities and the results of last year's VFM audit.

We will then form an assessment of residual audit risk and identify if there are any areas where more detailed VFM audit work is required.

VFM audit stage	Audit approach
Linkages with financial statements and other audit work	<p>There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities.</p> <p>We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.</p>
Assessment of residual audit risk	<p>It is possible that further audit work may be necessary in some areas to ensure sufficient coverage of the two VFM criteria.</p> <p>Such work may involve interviews with relevant officers and /or the review of documents such as policies, plans and minutes. We may also refer to any self assessment the Authority may prepare against the characteristics.</p> <p>To inform any further work we must draw together an assessment of residual audit risk, taking account of the work undertaken already. This will identify those areas requiring further specific audit work to inform the VFM conclusion.</p> <p>At this stage it is not possible to indicate the number or type of residual audit risks that might require additional audit work, and therefore the overall scale of work cannot be easily predicted. If a significant amount of work is necessary then we will need to review the adequacy of our agreed audit fee.</p>
Identification of specific VFM audit work	<p>If we identify residual audit risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case, including:</p> <ul style="list-style-type: none"> <li>■ considering the results of work by the Authority, inspectorates and other review agencies; and</li> <li>■ carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.</li> </ul>

Where relevant, we may draw upon the range of audit tools and review guides developed by the Audit Commission.

We will conclude on the results of the VFM audit through our ISA 260 Report.

VFM audit stage	Audit approach
Delivery of local risk based work	<p>Depending on the nature of the residual audit risk identified, we may be able to draw on audit tools and sources of guidance when undertaking specific local risk-based audit work, such as:</p> <ul style="list-style-type: none"> <li>■ local savings review guides based on selected previous Audit Commission national studies; and</li> <li>■ update briefings for previous Audit Commission studies.</li> </ul> <p>The tools and guides will support our work where we have identified a local risk that is relevant to them. For any residual audit risks that relate to issues not covered by one of these tools, we will develop an appropriate audit approach drawing on the detailed VFM guidance and other sources of information.</p>
Concluding on VFM arrangements	<p>At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources.</p> <p>If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.</p>
Reporting	<p>[We will report on the results of the VFM audit through our <i>ISA 260 Report</i>. This will summarise any specific matters arising, and the basis for our overall conclusion.</p> <p>The key output from the work will be the VFM arrangements conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.</p>

As part of our initial planning work, we have identified one potential VFM risk to the Authority.

As part of our more detailed risk assessment, we will assess whether external and internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to this risk area are adequate.


Where this is not the case, we will carry out additional risk-based work.

In line with the risk-based approach set out on the previous page, we have assessed the Authority's key business risks which are relevant to our VFM conclusion, and identified one potential VFM risk.

As part of our detailed risk assessment, we will assess whether external and internal scrutiny provides sufficient assurance that the

Authority's current arrangements in relation to these risk areas are adequate. We will then plan and carry out additional risk based work as required.

We will report our final conclusions in our *ISA 260 Report 2014/15*.

Potential VFM risk	Risk description and link to VFM conclusion	Preliminary assessment
	<p>The Authority is required to make further additional savings after 2014/15 as a result of the reductions on overall funding it is expected to receive. In 2015/16, savings of £25 million per annum are required, with additional year on year savings of £20 million p.a. required in 2016/17, and an additional £13 million p.a. required in 2017/18.</p> <p>The savings required for 2015/16 have now been identified by the Council, but further work is still required to identify the additional savings required in future years, principally to address future reductions to local authority funding alongside service cost and demand pressures. The need for savings will have a significant impact on the Authority's financial resilience.</p>	<p>As part of our risk based work, we will review the controls the Authority has in place to ensure financial resilience, specifically that the Medium Term Financial Plan has duly taken into consideration:</p> <ul style="list-style-type: none"> <li>■ funding reductions;</li> <li>■ salary inflation;</li> <li>■ general inflation;</li> <li>■ demand pressures;</li> <li>■ restructuring costs; and</li> <li>■ sensitivity analysis given the degree of variability in the above factors.</li> </ul>



Your audit team has been drawn from our specialist public sector assurance department. Our audit team were all part of the Blackpool Council audit last year.

Contact details are shown on page 1.

The audit team will be assisted by other KPMG specialists as necessary.



Trevor Rees  
**Partner**

“My role is to lead our team and ensure the delivery of a high quality, valued added external audit opinion.

I will be the main point of contact for the Finance and Audit Committee and Chief Executive.”



Iain Leviston  
**Manager**

“I am responsible for the management, review and delivery of the audit.

I will work closely with Trevor to ensure we add value.

I will liaise with the Director of Resources and the Head of Internal Audit.”



Reena Ghelani  
**Assistant Manager**

“I will be responsible for the on-site delivery of our work and will supervise the work of our audit assistants.”

Deliverable	Purpose	Committee dates
<b>Planning</b>		
<b>External Audit Plan</b>	<ul style="list-style-type: none"> <li>■ Outlines our audit approach.</li> <li>■ Identifies areas of audit focus and planned procedures.</li> </ul>	<b>January 2015</b>
<b>Control evaluation and Substantive procedures</b>		
<b>Report to Those Charged with Governance (ISA 260 Report)</b>	<ul style="list-style-type: none"> <li>■ Details control and process issues.</li> <li>■ Details the resolution of key audit issues.</li> <li>■ Communicates adjusted and unadjusted audit differences.</li> <li>■ Highlights performance improvement recommendations identified during our audit.</li> <li>■ Comments on the Authority's value for money arrangements.</li> </ul>	<b>September 2015</b>
<b>Completion</b>		
<b>Auditor's Report</b>	<ul style="list-style-type: none"> <li>■ Provides an opinion on your accounts (including the Annual Governance Statement).</li> <li>■ Concludes on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion).</li> </ul>	<b>September 2015</b>
<b>Whole of Government Accounts</b>	<ul style="list-style-type: none"> <li>■ Provide our assurance statement on the Authority's WGA pack submission.</li> </ul>	<b>September 2015</b>
<b>Annual Audit Letter</b>	<ul style="list-style-type: none"> <li>■ Summarises the outcomes and the key issues arising from our audit work for the year.</li> </ul>	<b>November 2015</b>

We will be in continuous dialogue with you throughout the audit.

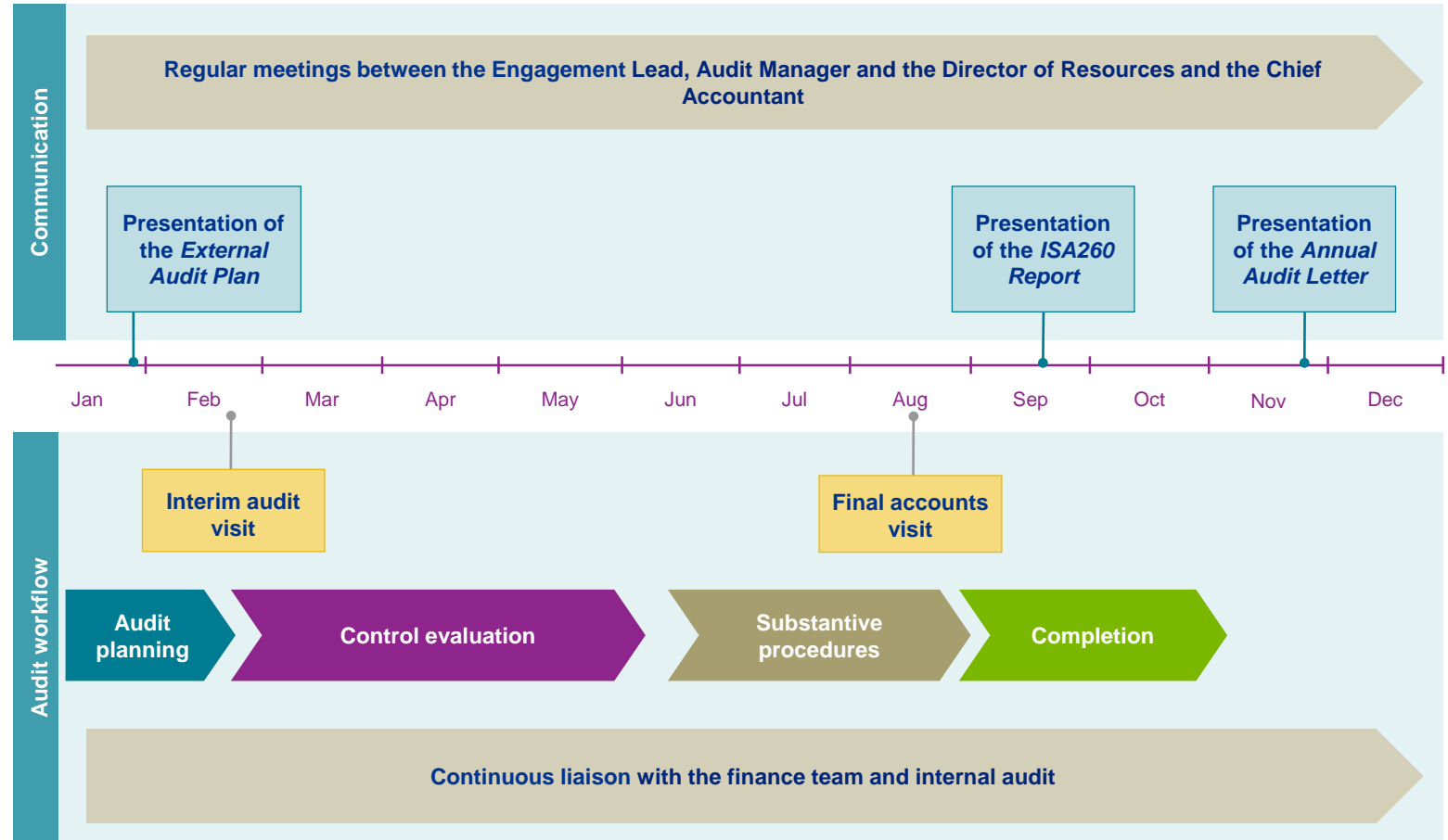
Key formal interactions with the Finance and Audit Committee are:

- January – External Audit Plan;
- September – ISA 260 Report;
- November – Annual Audit Letter.

We work with the finance team and internal audit throughout the year.

Our main work on site will be our:

- Interim audit visits during February.
- Final accounts audit during August.



The fee for the 2014/15 audit of the Authority is £146,870. The fee has increased by £1,070 from that set out in our *Audit Fee Letter 2014/15* issued in April 2014 to reflect the additional work required on business rates.

Our audit fee remains indicative and based on you meeting our expectations of your support.

Meeting these expectations will help the delivery of our audit within the proposed audit fee.

### Audit fee

Our *Audit Fee Letter 2014/15* presented to you in April 2014 first set out our fees for the 2014/15 audit. The Audit Commission has subsequently increased the fee by £1,070 to reflect the audit work required on business rates.

Our audit fee includes our work on the VFM conclusion and our audit of the Authority's financial statements.

The planned audit fee for 2014/15 is **£146,870**. This is the same as the audit fee for 2013/14.

### Audit fee assumptions

The fee is based on a number of assumptions, including that you will provide us with complete and materially accurate financial statements, with good quality supporting working papers, within agreed timeframes. It is imperative that you achieve this. If this is not the case and we have to complete more work than was envisaged, we will need to charge additional fees for this work. In setting the fee, we have assumed:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2014/15;
- you will inform us of any significant developments impacting on our audit;
- you will identify and implement any changes required under the *CIPFA Code of Practice on Local Authority Accounting in the UK 2014/15* within your 2014/15 financial statements;
- you will comply with the expectations set out in our *Accounts Audit Protocol*, including:
  - the financial statements are made available for audit in line with the agreed timescales;
  - good quality working papers and records will be provided at the start of the final accounts audit;

- requested information will be provided within the agreed timescales;
- prompt responses will be provided to queries and draft reports;
- internal audit meets appropriate professional standards;
- internal audit adheres to our joint working protocol and completes appropriate work on all systems that provide material figures for the financial statements and we can place reliance on them for our audit; and
- additional work will not be required to address questions or objections raised by local government electors or for special investigations such as those arising from disclosures under the Public Interest Disclosure Act 1998.

Meeting these expectations will help ensure the delivery of our audit within the agreed audit fee.

The Audit Commission requires us to inform you of specific actions you could take to keep the audit fee low. Future audit fees can be kept to a minimum if the Authority continues to achieve an efficient and well-controlled financial closedown and accounts production process which complies with good practice and appropriately addresses new accounting developments and risk areas.

### Changes to the audit plan

Changes to this plan and the audit fee may be necessary if:

- new significant audit risks emerge;
- additional work is required of us by the Audit Commission or other regulators; and
- additional work is required as a result of changes in legislation, professional standards or financial reporting requirements.

If changes to this plan and the audit fee are required, we will discuss and agree these initially with the Director of Resources.

This appendix summarises auditors' responsibilities regarding independence and objectivity.

### Independence and objectivity

Auditors are required by the Code to:

- carry out their work with independence and objectivity;
- exercise their professional judgement and act independently of both the Commission and the audited body;
- maintain an objective attitude at all times and not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest; and
- resist any improper attempt to influence their judgement in the conduct of the audit.

In addition, the Code specifies that auditors should not carry out work for an audited body that does not relate directly to the discharge of the auditors' functions under the Code. If the Authority invites us to carry out risk-based work in a particular area, which cannot otherwise be justified to support our audit conclusions, it will be clearly differentiated as work carried out under section 35 of the Audit Commission Act 1998.

The Code also states that the Commission issues guidance under its powers to appoint auditors and to determine their terms of appointment. The Standing Guidance for Auditors includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Auditors and senior members of their staff who are directly involved in the management, supervision or delivery of Commission-related work, and senior members of their audit teams should not take part in political activity.
- No member or employee of the firm should accept or hold an appointment as a member of an audited body whose auditor is, or is proposed to be, from the same firm. In addition, no member or employee of the firm should accept or hold such appointments at related bodies, such as those linked to the audited body through a strategic partnership.

- Audit staff are expected not to accept appointments as Governors at certain types of schools within the local authority.
- Auditors and their staff should not be employed in any capacity (whether paid or unpaid) by an audited body or other organisation providing services to an audited body whilst being employed by the firm.
- Firms are expected to comply with the requirements of the Commission's protocols on provision of personal financial or tax advice to certain senior individuals at audited bodies, independence considerations in relation to procurement of services at audited bodies, and area wide internal audit work.
- Auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission.
- Auditors are expected to comply with the Commission's policy for the Engagement Lead to be changed on a periodic basis.
- Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- Certain other staff changes or appointments require positive action to be taken by Firms as set out in the standing guidance.

## Appendix 2: KPMG Audit Quality Framework

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG.

The diagram summarises our approach and each level is expanded upon.

At KPMG we consider audit quality is not just about reaching the right opinion, but how we reach that opinion. KPMG views the outcome of a quality audit as the delivery of an appropriate and independent opinion in compliance with the auditing standards. It is about the processes, thought and integrity behind the audit report. This means, above all, being independent, compliant with our legal and professional requirements, and offering insight and impartial advice to you, our client.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG. We use our seven drivers of audit quality to articulate what audit quality means to KPMG.

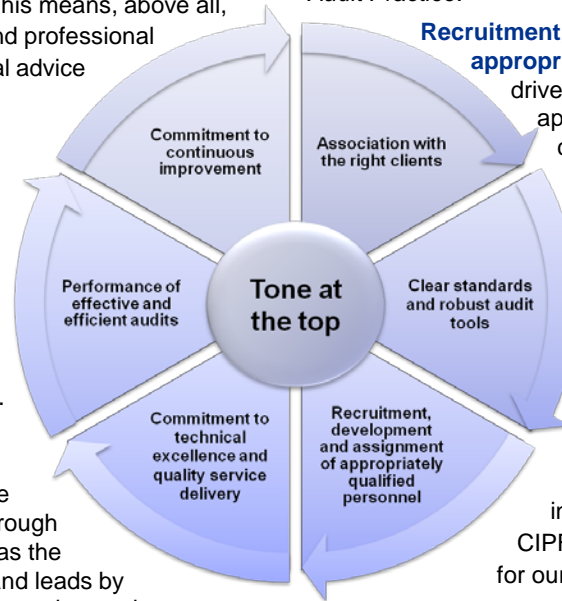
We believe it is important to be transparent about the processes that sit behind a KPMG audit report, so you can have absolute confidence in us and in the quality of our audit.

**Tone at the top:** We make it clear that audit quality is part of our culture and values and therefore non-negotiable. Tone at the top is the umbrella that covers all the drives of quality through a focused and consistent voice. Trevor Rees as the Engagement Lead sets the tone on the audit and leads by example with a clearly articulated audit strategy and commits a significant proportion of his time throughout the audit directing and supporting the team.

**Association with right clients:** We undertake rigorous client and engagement acceptance and continuance procedures which are vital to the ability of KPMG to provide high-quality professional services to our clients.

**Clear standards and robust audit tools:** We expect our audit professionals to adhere to the clear standards we set and we provide a range of tools to support them in meeting these expectations. The global rollout of KPMG's eAudIT application has significantly enhanced existing audit functionality. eAudIT enables KPMG to deliver a highly

technically enabled audit. All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.



**Recruitment, development and assignment of appropriately qualified personnel:** One of the key drivers of audit quality is assigning professionals appropriate to the Authority's risks. We take great care to assign the right people to the right clients based on a number of factors including their skill set, capacity and relevant experience.

We have a well developed technical infrastructure across the firm that puts us in a strong position to deal with any emerging issues. This includes:

- A national public sector technical director who has responsibility for co-ordinating our response to emerging accounting issues, influencing accounting bodies (such as CIPFA) as well as acting as a sounding board for our auditors.
- A national technical network of public sector audit professionals is established that meets on a monthly basis and is chaired by our national technical director.
- All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.
- A dedicated Department of Professional Practice comprised of over 100 staff that provide support to our audit teams and deliver our web-based quarterly technical training.

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

Quality must build on the foundations of well trained staff and a robust methodology.

**Commitment to technical excellence and quality service delivery:**

Our professionals bring you up- the-minute and accurate technical solutions and together with our specialists are capable of solving complex audit issues and delivering valued insights.

Our audit team draws upon specialist resources including Forensic, Corporate Finance, Transaction Services, Advisory, Taxation, Actuarial and IT. We promote technical excellence and quality service delivery through training and accreditation, developing business understanding and sector knowledge, investment in technical support, development of specialist networks and effective consultation processes.

**Performance of effective and efficient audits:** We understand that how an audit is conducted is as important as the final result. Our drivers of audit quality maximise the performance of the engagement team during the conduct of every audit. We expect our people to demonstrate certain key behaviors in the performance of effective and efficient audits. The key behaviors that our auditors apply throughout the audit process to deliver effective and efficient audits are outlined below:

- timely Engagement Lead and manager involvement;
- critical assessment of audit evidence;
- exercise of professional judgment and professional scepticism;
- ongoing mentoring and on the job coaching, supervision and review;
- appropriately supported and documented conclusions;
- if relevant, appropriate involvement of the Engagement Quality Control reviewer (EQC review);
- clear reporting of significant findings;
- insightful, open and honest two-way communication with those charged with governance; and
- client confidentiality, information security and data privacy.

**Commitment to continuous improvement:** We employ a broad range of mechanisms to monitor our performance, respond to feedback and understand our opportunities for improvement.

**Our quality review results:** We are able to evidence the quality of our audits through the results of Audit Commission reviews. The Audit Commission publishes information on the quality of work provided by KPMG (and all other firms) for audits undertaken on behalf of them (<http://www.audit-commission.gov.uk/audit-regime/audit-quality-review-programme/principal-audits/kpmg-audit-quality>).

The latest Annual Regulatory Compliance and Quality Report (issued June 2014) showed that we are meeting the Audit Commission's overall audit quality and regularity compliance requirements.

**We are required to consider fraud and the impact that this has on our audit approach.**

**We will update our risk assessment throughout the audit process and adapt our approach accordingly.**

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Members /Officers responsibilities

- Adopt sound accounting policies.
- With oversight from those charged with governance, establish and maintain internal control, including controls to prevent, deter and detect fraud.
- Establish proper tone/culture/ethics.
- Require periodic confirmation by employees of their responsibilities.
- Take appropriate action in response to actual, suspected or alleged fraud.
- Disclose to Finance and Audit Committee and auditors:
  - any significant deficiencies in internal controls.
  - any fraud involving those with a significant role in internal controls.

KPMG's identification of fraud risk factors

- Review of accounting policies.
- Results of analytical procedures.
- Procedures to identify fraud risk factors.
- Discussion amongst engagement personnel.
- Enquiries of management, Finance and Audit Committee, and others.
- Evaluate controls that prevent, deter, and detect fraud.

KPMG's response to identified fraud risk factors

- Accounting policy assessment.
- Evaluate design of mitigating controls.
- Test effectiveness of controls.
- Address management override of controls.
- Perform substantive audit procedures.
- Evaluate all audit evidence.
- Communicate to Finance and Audit Committee and officers.

KPMG's identified fraud risk factors

- We will monitor the following areas throughout the year and adapt our audit approach accordingly.
  - Revenue recognition.
  - Management override of controls.



**The Audit Commission will be writing to audited bodies and other stakeholders in the coming months with more information about the transfer of the Commissions' regulatory and other functions.**

From 1 April 2015 a transitional body, Public Sector Audit Appointments Limited (PSAA), established by the Local Government Association (LGA) as an independent company, will oversee the Commission's audit contracts until they end in 2017 (or 2020 if extended by DCLG). PSAA's responsibilities will include setting fees, appointing auditors and monitoring the quality of auditors' work. The responsibility for making arrangements for publishing the Commission's value for money profiles tool will also transfer to PSAA.

From 1 April 2015, the Commission's other functions will transfer to new organisations:

- responsibility for publishing the statutory Code of Audit Practice and guidance for auditors will transfer to the National Audit Office (NAO) for audits of the accounts from 2015/16;
- the Commission's responsibilities for local value for money studies will also transfer to the NAO; and
- the National Fraud Initiative (NFI) will transfer to the Cabinet Office.



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<b>Report to:</b>	<b>FINANCE AND AUDIT COMMITTEE</b>
<b>Relevant Officer:</b>	Steve Thompson, Director of Resources
<b>Date of Meeting:</b>	29 <sup>th</sup> January 2015

## FINANCIAL PERFORMANCE MONITORING AS AT MONTH 7 2014/2015

### 1.0 Purpose of the report:

1.1 The level of spending against the Council's Revenue and Capital budgets for the first 7 months to October 2014.

### 2.0 Recommendation(s):

2.1 To note the decision of the Executive meeting on the 15<sup>th</sup> December 2014 namely:

1. To note the report

2. To require the respective Directors and Director of Resources to continue to closely monitor and manage financial and operational performances, particularly in Children's Services, Adult Services, Parking Services and Community and Environmental Services.

3. To recommend the Finance and Audit Committee to continue to independently review the financial and operational performances of the services listed in 2.

### 3.0 Reasons for recommendation(s):

3.1 Members' information and comment

3.2a Is the recommendation contrary to a plan or strategy adopted or approved by the Council? No

3.2b Is the recommendation in accordance with the Council's approved budget? Yes

3.3 Other alternative options to be considered:

None

**4.0 Council Priority:**

4.1 The relevant Council Priority is:

“Deliver quality services through a professional, well-rewarded and motivated workforce”

**5.0 Background Information**

5.1 See reports and appendices circulated to members under separate cover.

5.2 Does the information submitted include any exempt information?

No

**5.3 List of Appendices:**

Report  
Appendix 1  
Appendix 2  
Appendix 3a  
Appendix 3b  
Appendix 3c  
Appendix 3d  
Appendix 3e  
Appendix 3f  
Appendix 3g  
Appendix 3h  
Appendix 3i  
Appendix 3j  
Appendix 3k  
Appendix 3l  
Appendix 4  
Appendix 5  
Appendix 6

All circulated to members under separate cover

**6.0 Legal considerations:**

6.1 None

**7.0 Human Resources considerations:**

7.1 See reports and appendices circulated to members under separate cover.

**8.0 Equalities considerations:**

8.1 An Equalities Impact Assessment was produced as a part of the budget setting process and remains relevant.

**9.0 Financial considerations:**

9.1 See reports and appendices circulated to members under separate cover.

**10.0 Risk management considerations:**

10.1 Impact of financial performance on Council balances. Financial performance against approved Revenue and Capital budgets.

**11.0 Ethical considerations:**

11.1 None

**12.0 Internal/ External Consultation undertaken:**

12.1 None

**13.0 Background papers:**

13.1 None

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<b>Report to:</b>	<b>FINANCE AND AUDIT COMMITTEE</b>
<b>Relevant Officer:</b>	Steve Thompson, Director of Resources
<b>Date of Meeting:</b>	29 <sup>th</sup> January 2015

## FINANCIAL PERFORMANCE MONITORING AS AT MONTH 8 2014/2015

### 1.0 Purpose of the report:

1.1 The level of spending against the Council's Revenue and Capital budgets for the first 8 months to November 2014.

### 2.0 Recommendation(s):

2.1 To note the recommendations to the Executive meeting on the 26<sup>th</sup> January 2015 namely:

1. To note the report.

2. To require the respective Directors and Director of Resources to continue to closely monitor and manage financial and operational performances, particularly in Children's Services, Adult Services, Parking Services and Community and Environmental Services.

3. To recommend the Finance and Audit Committee to continue to independently review the financial and operational performances of the services listed in 2.

### 3.0 Reasons for recommendation(s):

3.1 Members' information and comment

3.2a Is the recommendation contrary to a plan or strategy adopted or approved by the Council? No

3.2b Is the recommendation in accordance with the Council's approved budget? Yes

3.3 Other alternative options to be considered:

None

**4.0 Council Priority:**

4.1 The relevant Council Priority is:

“Deliver quality services through a professional, well-rewarded and motivated workforce”

**5.0 Background Information**

5.1 See reports and appendices circulated to members under separate cover.

5.2 Does the information submitted include any exempt information?

No

**5.3 List of Appendices:**

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Appendix 3j  
Appendix 3k  
Appendix 3l  
Appendix 4  
Appendix 5  
Appendix 6

All circulated to members under separate cover

**6.0 Legal considerations:**

6.1 None

**7.0 Human Resources considerations:**

7.1 See reports and appendices circulated to members under separate cover.



**8.0 Equalities considerations:**

8.1 An Equalities Impact Assessment was produced as a part of the budget setting process and remains relevant.

**9.0 Financial considerations:**

9.1 See reports and appendices circulated to members under separate cover.

**10.0 Risk management considerations:**

10.1 Impact of financial performance on Council balances. Financial performance against approved Revenue and Capital budgets.

**11.0 Ethical considerations:**

11.1 None

**12.0 Internal/ External Consultation undertaken:**

12.1 None

**13.0 Background papers:**

13.1 None

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