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Report to those charged with governance (ISA 260) 2013/14

Blackpool Council

September 2014

Contents

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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.auditcommission.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 on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, the appointed engagement lead to the Authority, 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, 3rd Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their telephone number is 03034448330.

Introduction

This document summarises:

- **the key issues identified during our audit of the financial statements for the year ended 31 March 2014 for the Authority; and**
- **our assessment of the Authority's arrangements to secure value for money.**

Scope of this report

This report summarises the key findings arising from:

- Our audit work at Blackpool Council in relation to the Authority's 2013/14 financial statements; and
- the work to support our 2013/14 conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

Financial statements

Our *External Audit Plan 2013/14*, presented to you in February 2014, set out the four stages of our financial statements audit process.

We previously reported on our work on the first two stages in our *Interim Audit Report 2013/14* issued in April 2014.

This report focuses on the third stage of the process: substantive procedures. Our on site work for this took place in August 2014.

We are now in the final phase of the audit, the completion stage. Some aspects of this stage are also discharged through this report.

VFM conclusion

Our *External Audit Plan 2013/14* explained our risk-based approach to VFM work, which follows guidance provided by the Audit Commission. We have completed our work to support our 2013/14 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion; and
- considering the results of any relevant work by the Authority, the Audit Commission, other inspectorates and review agencies in relation to these risk areas.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 2013/14 financial statements of the Authority.
- Section 4 outlines our key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1. We have also reviewed your progress in implementing prior recommendations and this is detailed in Appendix 2.

Acknowledgements

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

Headlines

This table summarises the headline messages. Sections three and four of this report provide further details on each area.

Proposed audit opinion	Our overall audit approach is unchanged from last year. Our work is carried out in four stages and the timings for these, and specifically our on site work, have been agreed with the Chief Financial Officer. We anticipate issuing an unqualified audit opinion on the Authority's financial statements by 30 September 2014. We will also report that the wording of your Annual Governance Statement accords with our understanding.
Audit adjustments	To comply with auditing standards, we are required to report uncorrected audit differences to the Finance and Audit Committee. We are pleased to report there are no uncorrected audit differences. 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. Our audit has identified one audit adjustment with a value of £5.3 million. The impact of this adjustment is to: ■ increase the deficit on provision of services for the year by £5.3 million; and ■ decrease the net worth of the Authority as at 31 March 2014 by £5.3 million. This adjustment was made by the Authority, but has had no impact on the balance on the general fund account as at 31 March 2014. We have included the adjustment at Appendix 3. We have also raised a recommendation in relation to the matter highlighted above, which is summarised in Appendix 1. We also identified a number of presentation and disclosure errors which have been amended by management in the revised version of the financial statements.
Key financial statements audit risks	We have worked with officers and performed work in relation to the key areas of focus identified during the planning phase of our audit. We are satisfied that the Authority has appropriate arrangements in place to address the risks and issues that we have identified. See Appendix 1 for details of our findings.
Accounts production and audit process	We have noted an improvement in the quality of the accounts and the supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales. The Authority has implemented all of the recommendations in our *ISA 260 Report 2012/13* relating to the financial statements.

Headlines

This table summarises the headline messages. Sections three and four of this report provide further details on each area.

Completion	At the date of this report our audit of the financial statements is substantially complete subject to completion of the following areas: ■ Completion of Whole of Government Accounts review. ■ Review of final subsidiary accounts. ■ A review of any post balance sheet events up to the date of signing our audit report. Before we can issue our opinion we require a signed management representation letter. We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.
VFM conclusion and risk areas	We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2014.

Proposed opinion and audit differences

We anticipate issuing an unqualified audit opinion in relation to the Authority's financial statements by 30 September 2014.

Our audit has identified a £5.3 million audit adjustment.

This adjustment has had no impact on the balance on the general fund account as at 31 March 2014.

The wording of your Annual Governance Statement accords with our understanding of the Authority.

Proposed audit opinion

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion by 30 September 2014.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

Our audit identified one significant audit difference with a value of £5.3 million, which we have set out in Appendix 3. It is our understanding that this has been adjusted in the final version of the financial statements.

The tables on the right illustrate the total impact of audit differences on the Authority's movements on the General Fund for the year and balance sheet as at 31 March 2014.

The audit adjustment has had no impact on the General Fund accounts as at 31 March 2014.

In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting the United Kingdom 2013/14 ('the Code')*. We understand that the Authority will be addressing these where significant.

Annual Governance Statement

We have reviewed the Annual Governance Statement and confirmed that:

- it complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE; and
- it is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

We have made a number of comments in respect of its format and content which the Authority has agreed to amend where significant.

Movements on the General Fund 2013/14

£m	Pre-audit	Post-audit	*Ref (App.3)*
Deficit on the provision of services	60,551	65,881	1
Adjustments between accounting basis & funding basis under Regulations	(64,170)	(69,500)	*1*
Transfers to earmarked reserves	4,724	4,724	-
Decrease in General Fund	**1,105**	**1,105**	

Balance Sheet as at 31 March 2014

£m	Pre-audit	Post-audit	*Ref (App.3)*
Property, plant and equipment	815,778	810,448	*1*
Other long term assets	42,286	42,286	-
Current assets	47,512	47,512	-
Current liabilities	(124,992)	(124,992)	-
Long term liabilities	(378,511)	(378,511)	-
Net worth	**402,073**	**396,743**	
General Fund	(10,078)	(10,078)	-
Other reserves	(391,995)	(386,665)	*1*
Total reserves	**(402,073)**	**(396,743)**	

Key financial statements audit risks

We have worked with officers throughout the year to discuss specific areas of audit focus. The Authority addressed the issues appropriately.

In our *External Audit Plan 2013/14*, presented to you in February, we identified three areas of audit focus. We have now completed our testing of these areas and set out our evaluation following our substantive work.

The table below sets out our detailed findings for each of the risks that are specific to the Authority.

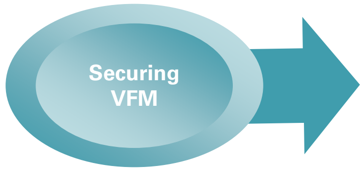
Additionally, we considered the risk of management override of controls, which is a standard risk for all organisations.

Our controls testing and substantive procedures, covering journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual, did not identify any issues.

Key audit risk	Issue	Findings
Savings plans	As at month 8 2013, the Authority is forecasting a net overspend £630,000, which is to be met from working balances. The main areas of overspend are strategic leisure assets and children's services. The Authority has plans in place to address this overspend by the end of the financial year. The 2013/14 budget includes a full year's savings programme totalling £14.1 million. The Authority reports that £10.1 million (72%) of these savings have been delivered to date. The Authority currently estimates that another £15.8 million in savings will need to be achieved during 2014/15 and a total of £19.8 million in 2015/16 to address the further reductions to local authority funding. Against a backdrop of continued demand pressures in strategic leisure assets and children's services it is becoming more difficult to deliver these savings in a way that secures longer term financial and operational sustainability.	The final outturn for 2013/14 represented an under-spend of £134,000 against the budget, which was reported to Executive Committee in January 2013. During the year, the Authority has achieved its savings targets in order to manage the reductions in Local Government funding. In total, efficiencies and savings of approximately £14.1 million have been achieved across all service areas. However, savings of £15.8 million will be required in 2014/15 to bridge the Authority's budget gap. The Authority forecasts that these savings will be delivered before the year end. The Council has established and implemented a savings plan to achieve the required savings over the next three years. The updated £15.8 million savings target has been factored into the 2014/15 budget. Savings will be primarily made through a combination of staff savings, commissioning reviews and service restructures. Savings will be achieved mainly within Adult Services (£1.5 million), Children's Services (£1.1 million) and Community and Environmental (£2.5 million). As at 30 June 2014, 64% of the 2014/15 savings target has already been delivered. The remaining savings will be achieved across all service areas. Our detailed budgetary control testing found the Authority has robust procedures in place to monitor budget variances and implement remedial action as necessary. We will continue to monitor the Authority's financial position going forward to ensure that savings targets are being achieved and performance is in line with expectations and budget.

Key financial statements audit risks (continued)

We have worked with officers throughout the year to discuss specific risk areas. The Authority addressed the issues appropriately.

Key audit risk	Issue	Findings
	Secondary education in Blackpool has recently been assessed by OFSTED because of concerns that standards of secondary achievement are well below national averages. The inspection found that the Authority has failed to provide sufficient challenge to secondary schools to raise standards. Furthermore, the Authority's published improvement strategy was found to "lack quantitative targets and qualitative indicators to which school leaders can subscribe and be held to account". A re-inspection is scheduled to take place in the next nine to twelve months and we understand that the Authority has agreed additional capacity in the form of additional posts, to address the problem. Given this result, and continuing budget pressures, it is imperative that the Council allocates resources appropriately without compromising the quality of service delivery across the Council. A robust action plan, to address the identified weakness, needs to be developed and implemented. Additionally, appropriate monitoring systems need to be implemented to ensure that the poor service delivery is monitored and value for money is being delivered on resources employed.	The arrangements in place for identifying, implementing and monitoring savings and efficiency reviews were sufficient to ensure the Authority achieved its financial budget in 2013/14. Following the outcome of the school inspection in July 2012, the Authority has implemented the following measures to improve the service: ■ A restructure of Children's Social Care including an investment in an additional 15 new social workers and new 'Getting it right team' focussing on early support for families in Blackpool. ■ Establishment of an Improvement Board as an external scrutiniser of the Authority and its partners work on Safeguarding. The Board reports directly to the Minister on the Authority's performance. ■ Development of a pertinent Improvement Plan. The Department for Education (DfE) has completed a review of Blackpool's improvement progress and reported their findings to the Minister. DfE highlighted that the improvement plan was delivering much of the structural organisations and process reform required. A further OFSTED inspection took place in July 2014. Although the official report is yet to be published, management anticipate that the overall findings will be positive. Children's services reported an overspend of £1.4 million in 2013/14. Despite the improvements in Social Care, the number of Looked After Children (LAC) remained high. Internal recovery plans have been produced which address the issue over the medium term. This targets a reduction to 420 by the end of 2014/15 and 400 by the end of 2015/16. It also seeks to make use of less costly placements. The plan has been integrated in the social care budget approved by Executive. The above demonstrates the Authority has appropriate plans in place to address the financial issues whilst ensuring that service quality is maintained.

Key financial statements audit risks (continued)

We have worked with officers throughout the year to discuss specific risk areas. The Authority addressed the issues appropriately.

Key audit risk	Issue	Findings
LGPS Triennial Valuation	During the year, the Local Government Pension Scheme for Lancashire (the Pension Fund) has undergone a triennial valuation with an effective date of 31 March 2013 in line with the Local Government Pension Scheme (Administration) Regulations 2008. The Authority's share of pensions assets and liabilities is determined in detail, and a large volume of data is provided to the actuary in order to carry out this triennial valuation. The IAS 19 numbers to be included in the financial statements for 2013/14 will be based on the output of the triennial valuation rolled forward to 31 March 2014. For 2014/15 and 2015/16 the actuary will then roll forward the valuation for accounting purposes based on more limited data. There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts. Most of the data is provided to the actuary by Lancashire County Council who administer the Pension Fund.	During 2013/14, the Authority's pension deficit has decreased by £48.9 million as a result of the following movements in pension assets and liabilities: ■ The current valuation of pension liabilities has decreased from £582.5 million at 31 March 2013 to £547.7 million at 31 March 2014. ■ This has been supported by an increase in the asset value of £14.1million. ■ There has been an actuarial gain of £56.5 million in relation to the changes in actuarial assumptions used to value the Scheme's liabilities. As part of our audit, we have reviewed the Authority's IAS 19 assumptions as at 31 March 2014 against KPMG's acceptable range and consider these to fall within our acceptable range. In addition, we have agreed the data provided by the Authority to the actuary back to the systems and reports from which it was derived, to ensure the accuracy of this data. Throughout the audit process, we have liaised with Grant Thornton, who are the auditors of the Pension Fund, to gain assurance over accuracy and completeness of source data provided by the Pension Fund to the scheme actuary. We have also reviewed the accounts to ensure they include appropriate disclosures and have reviewed the accounting treatment for annual pension charges included in the Income and Expenditure account.

Accounts production and audit process

We have noted an improvement in the quality of the accounts and the supporting working papers.

Officers dealt efficiently with audit queries and the audit process could be completed within the planned timescales.

The Authority has implemented all of the recommendations in our *ISA 260 Report 2012/13.*

Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the Authority's accounting practices and financial reporting. We also assessed the Authority's process for preparing the accounts and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The Authority has appropriate financial reporting processes in place to assist the preparation of the financial statements. There is scope to improve this further by implementing the capital related recommendations detailed in Appendix 1, which will improve the effectiveness of the Authority's control environment.
Completeness of draft accounts	We received a complete set of draft accounts on 30 June 2014, which was in line with our expectations. The accounts were signed by the Treasurer before the 30 June deadline.
Quality of supporting working papers	Our '*Prepared by Client List'* set out our working paper requirements for the audit. The working papers provided were of a good quality and generally met our requirements. During 2013/14, the Authority has provided all working papers in an electronic format. These working papers have been easy to follow and were referenced to our prepared by client list making them easy to follow.

Element	Commentary
Response to audit queries	Officers resolved the majority of audit queries in a reasonable time.
Group audit	To gain assurance over the Authority's group accounts, we placed reliance on work completed by Baker Tilly on the financial statements of Blackpool Coastal Housing. We also placed reliance on work completed by KPMG colleagues in our Preston office on the financial statements of Blackpool Transport Services. There are no specific matters to report pertaining to the group audit.

Prior year recommendations

As part of our audit we have specifically followed up the Authority's progress in addressing the recommendations in last year's ISA 260 report.

The Authority has implemented all of the recommendations in our *ISA 260 Report 2012/13*. Appendix 2 provides further details.

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will prepare our *Annual Audit Letter* and close our audit.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of Blackpool Council for the year ending 31 March 2014, we confirm that there were no relationships between KPMG LLP and Blackpool Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 4 in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Responsible Finance Officer for presentation to the Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- significant difficulties encountered during the audit;
- significant matters arising from the audit that were discussed, or subject to correspondence with management;
- other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2013/14 financial statements.

VFM conclusion

Our VFM conclusion considers how the Authority secures financial resilience and challenges how it secures economy, efficiency and effectiveness.

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Background

Auditors are required to give their statutory VFM conclusion based on two criteria specified by the Audit Commission. These consider whether the Authority has proper arrangements in place for:

- securing financial resilience: looking at the Authority's financial governance, financial planning and financial control processes; and
- challenging how it secures economy, efficiency and effectiveness: looking at how the Authority is prioritising resources and improving efficiency and productivity.

We follow a risk based approach to target audit effort on the areas of greatest audit risk. We consider the arrangements put in place by the Authority to mitigate these risks and plan our work accordingly.

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

Work completed

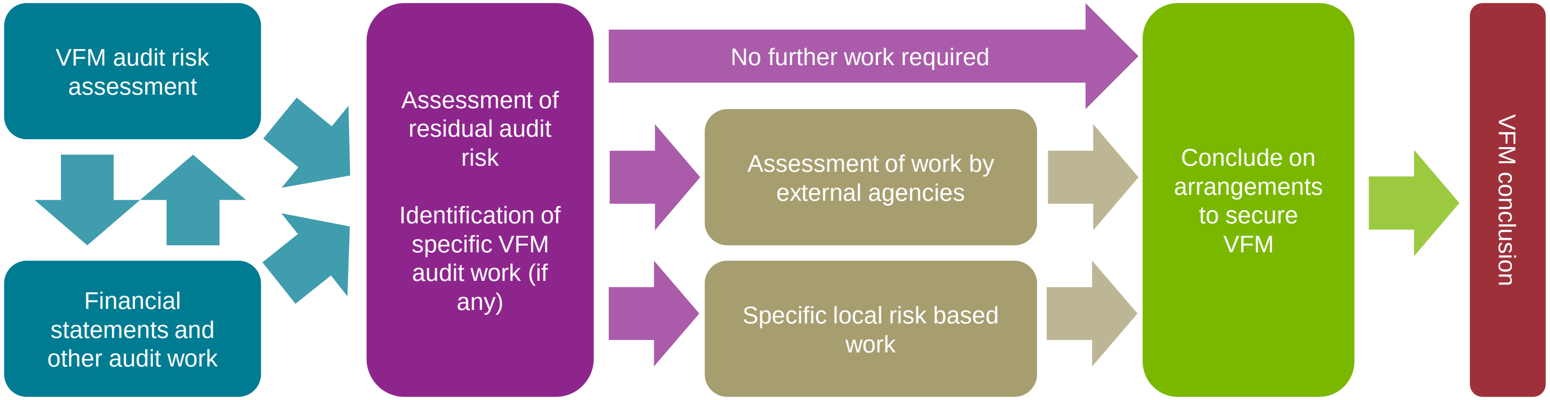
We performed a risk assessment earlier in the year and have reviewed this throughout the year.

We have not identified any significant risks to our VFM conclusion and therefore have not completed any additional work.

Conclusion

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

VFM criterion	Met
Securing financial resilience	✓
Securing economy, efficiency and effectiveness	✓



Specific VFM risks

We have identified a number of specific VFM risks.

In all cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

Work completed

In line with the risk-based approach set out on the previous page, and in our *External Audit Plan* we have:

- assessed the Authority's key business risks which are relevant to our VFM conclusion;
- identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit;
- considered the results of relevant work by the Authority, inspectorates and review agencies in relation to these risk areas

Below we set out the findings in respect of those areas where we have identified a residual audit risk for our VFM conclusion. We have reported our findings in relation to securing VFM in section 3.

We concluded that we did not need to carry out additional work for these risks as there was sufficient relevant work that had completed by the Authority, inspectorates and review agencies in relation to these risk areas.

Key VFM risk	Risk description and link to VFM conclusion	Assessment
Financial Resilience	The systems and processes used by the Authority to manage effectively financial risks and opportunities, and the ability of the Authority to secure a stable financial position that enables it to continue to operate for the foreseeable future. The Authority is currently in the process of establishing and implementing a savings plan to achieve the required savings for both the 2014/15 and 2015/16 financial years. Across the two years this equates to over £30.0 million savings target which has been factored into the MTFS.	Throughout the year we have reviewed the Authority's budget and financial plans to ensure they accurately reflect the Authority's financial position. The Authority has robust budgetary control procedures in place and key variances are reviewed by senior management and reported to the Executive Committee. Once again, the Authority has had to make significant savings during the year as a result of Local Government funding cuts. The Authority has over performed on its savings target, achieving £14.1 million of efficiencies and savings during 2013/14, however additional savings of £15.8 million will be required in 2014/15 and £19.8 million in 2015/16. At the start of the year, progress against savings targets is reviewed by the Corporate Leadership Team. This forms part of the financial performance report which is reviewed by the Executive at the end of quarter 1. Individual services are required to identify new savings for future years, all of which is fed into the Medium Term Financial Strategy review in September. The Authority achieved a £134,000 under-spend against its revised budget for the year ended 31 March 2014 demonstrating it is able to secure a stable financial position that enables it to continue to operate for the foreseeable future.

Appendix 1: Key issues and recommendations

We have given the recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

Priority rating for recommendations		
❶ ***Priority one***: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	❷ ***Priority two***: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	❸ ***Priority three***: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
1	❷	**Disposing of new build Academies** It was identified through our testing of Property, Plant and Equipment (PPE), that a new build Academy opened during the year was incorrectly classified as an Asset under Construction. The Academy should no longer be categorised on the balance sheet and should be treated as a fixed asset disposal in the Comprehensive Income and Expenditure Account (CIES). Although the Authority has a process to ensure new Academies are recognised and appropriately disposed of on the balance sheet, this Academy was overlooked due to being a new build as opposed to a converted school. **Recommendation** The Authority need to ensure existing controls around the disposal of converted Academies incorporate the disposal of new build Academies.	The Authority accepts this recommendation and will amend the year end disposal procedures to include new build Academies. **Responsible officer** - David Fish **Due date –** 31st March 2015

Appendix 2: Follow up of prior year recommendations

The Authority has implemented all of the recommendations in our *ISA 260 Report 2012/13.*

This appendix summarises the progress made to implement the recommendations identified in our *ISA 260 Report 2012/13* and re-iterates any recommendations still outstanding.

Number of recommendations that were:	
Included in original report	4
Implemented in year or superseded	4
Remain outstanding (re-iterated below)	0

No.	Risk	Issue and recommendation	Follow up in 2013/14
1	❶	**Accounting for impairment of Property, Plant and Equipment** Through our testing of impairment of Property, Plant and Equipment (PPE), we identified that the impairment charge for assets which have a corresponding revaluation reserve balance has been incorrectly included in the impairment charge to the Comprehensive Income and Expenditure Account (CIES). The charge was also taken to the revaluation reserve, which is the correct treatment. Thus the impairment charge to the CIES was overstated by £1.2 million. Additionally, the Fixed Asset Register (FAR) used to calculate the impairment charge was not the final version that was used to populate the Fixed Asset note. This meant that the impairment charge was calculated using incorrect figures resulting in an overstatement of the charge. The Authority needs to include validation checks within the FAR to accurately identify the impairment amount to be charged to the CIES and Revaluation Reserve. Also, version control needs to be maintained to ensure the correct version of the fixed asset register is used when producing the statement of accounts.	Our testing of PPE identified that the Authority has implemented checks to ensure the correct figures were used and there was no issue over version control. As such, We did not identify the same errors in the current year. **Status:** Implemented

Appendix 2: Follow up of prior year recommendations

The Authority has implemented all of the recommendations in our *ISA 260 Report 2012/13.*

No.	Risk	Issue and recommendation	Follow up in 2013/14
2	❶	**Fixed Asset Register accuracy and completeness** The Authority's Layton Road asset was revalued in year, however this revaluation was not recognised in the FAR. As a result, the impairment arising from the revaluation was not charged to the CIES, therefore the impairment charge was understated by £1.2 million The Authority needs to ensure that all revaluations that take place during the year are accurately reflected in the fixed asset register.	As part of out 2013/14 testing we confirmed that all assets that require revaluation have been revalued in year and that they had been adequately reflected in the FAR. **Status:** Implemented
3	❷	**Investment Property revaluation gains/losses** The *Code of Practice on Local Authority Accounting in the United Kingdom 2012/13* requires movements on Investment Property revaluations to be taken to the CIES as 'Finance and Investment Income'. However, through our testing of Investment Properties, we identified that upward gains of £1,328,000 and impairments of £1,330,000 have been incorrectly taken to the revaluation reserve. The Authority needs to ensure that all movements in Investment Properties are recognised in accordance with the latest Code of Practice.	Our testing in the current year confirmed that all revaluations on Investment Properties were recognised in accordance with the latest code of practice. **Status:** Implemented

Appendix 2: Follow up of prior year recommendations

The Authority has implemented all of the recommendations in our *ISA 260 Report 2012/13.*

No.	Risk	Issue and recommendation	Follow up in 2013/14
4	2	**Loss on disposal calculation** During the year several of the Authority's schools converted to academy status. As the Authority no longer retains ownership of the schools, they have been effectively disposed of with zero proceeds. The schools had a combined Net Book Value (NBV) of £32.5m at the time of disposal, however the loss on disposal has been calculated using their gross cost of £35m. Therefore the loss on disposal, which is recognised as Other Operating Expenditure with the CIES, was overstated by £2.5m Gains/losses arising from the disposal of fixed assets should be calculated using the assets NBV as opposed to its gross cost.	Gains and losses on disposal of fixed assets are calculated using the NBV in the current year as required. **Status:** Implemented

Appendix 3: Audit differences

This appendix sets out the significant audit differences.

It is our understanding that this has been adjusted.

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Finance and Audit Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities. We are pleased to report that there are no uncorrected audit differences.

Corrected audit differences

The following table sets out the significant audit differences identified by our audit of Blackpool Council's financial statements for the year ended 31 March 2014. It is our understanding that this has been adjusted.

	Impact					
No.	**Income and Expenditure Statement £'000s**	**Movement in Reserves Statement £'000s**	**Assets £'000s**	**Liabilities £'000s**	**Reserves £'000s**	**Basis of audit difference**
1	Dr Gains and Losses on disposal 5,330	Cr Adjustments between accounting basis and funding basis under regulations (5,330)	Cr PPE Assets - Asset Under Construction (5,330)	-	Dr Capital Adjustment Account 5,330	Incorrect treatment of Academy disposal. See issue 1 in Appendix 1 for details.
	Dr 5,330	**Cr 5,330**	**Cr 5330**	**-**	**Dr 5,330**	**Total impact of adjustments**

Appendix 4: Declaration of independence and objectivity

The *Code of Audit Practice* requires us to exercise our professional judgement and act independently of both the Commission and the Authority.

Requirements

Auditors appointed by the Audit Commission must comply with the *Code of Audit Practice* (the 'Code') which states that:

"Auditors and their staff should exercise their professional judgement and act independently of both the Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body that does not relate directly to the discharge of auditors' functions, if it would impair the auditors' independence or might give rise to a reasonable perception that their independence could be impaired."

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Audit Commission's *Standing Guidance for Local Government Auditors* ('Audit Commission Guidance') and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Audit Commission Guidance requires appointed auditors to follow the provisions of ISA (UK &I) 260 Communication of *Audit Matters with Those Charged with Governance*' that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.
- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our *Annual Audit Letter*.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit Committee].

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Appendix 4: Declaration of independence and objectivity (continued)

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the *Ethics and Independence Manual* ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual ethics and independence confirmation. Failure to follow these policies can result in disciplinary action.

Auditor declaration

In relation to the audit of the financial statements of Blackpool Council for the financial year ending 31 March 2014, we confirm that there were no relationships between KPMG LLP and Blackpool Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

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