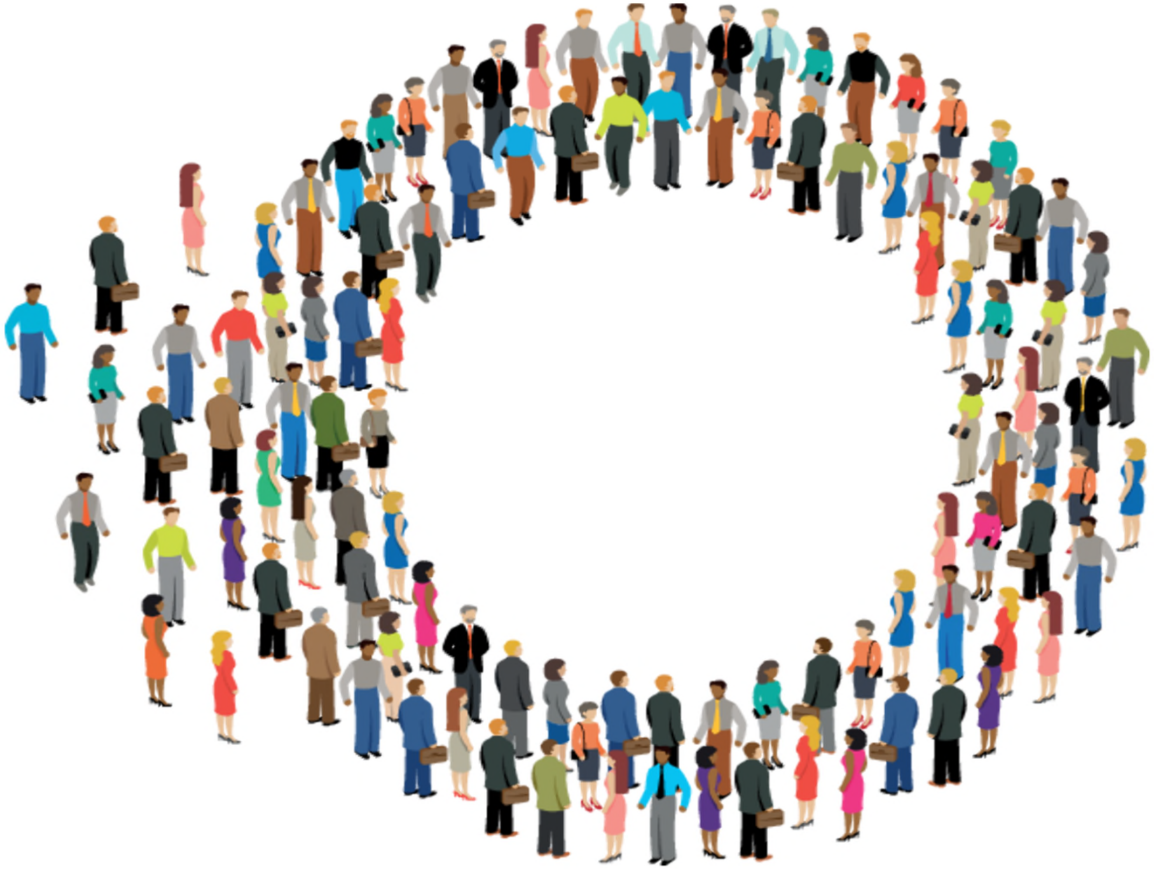
Appendix 5(b)



Blackpool Council

Report to the Audit Committee on the audit for the year ended 31 March 2019

Issued 19 July 2019 for the meeting on 25 July 2019

Contents

Introduction

The key messages in this report

I have pleasure in presenting our report to the Audit Committee of Blackpool Council (the Council) for the 2019 audit. The scope of our audit was set out within our planning report presented to the committee in February 2019.

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

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

Status of the audit

The following principal matters are currently outstanding:

- receipt of information from Pension Fund auditors;
- review of the updated actuarial report by our internal pension specialists;
- receipt of responses from component auditors in relation to the subsidiary company audits, including following up the qualification of the audit opinion for Blackpool Entertainment Company Limited and its impact on the group audit;
- completion of Value for Money work;
- receipt of supporting documentation for grant expenditure, capital grants, payables and provisions testing.
- resolution of queries in relation to the PFI balances;
- completion of our reserves testing and disclosures testing;
- PPE revaluation testing and journals to be finalised;
- review of updated financial statements;
- completion of internal quality control review procedures;
- receipt of signed management representation letter; and
- our review of events since 31 March 2019 through to signing.

Conclusions from our testing

- The key judgements in the audit process related to:
  - Completeness and cut-off of service line expenditure;
  - Pension liabilities;
  - Property Valuation; and
  - Management override of controls.
- We have identified a number of immaterial audit adjustments and disclosure deficiencies as part of our audit, management are in the process of updating these in the financial statements and we will conduct a final review once completed. We also identified one material adjustment in relation to a finance lease that should have been recognised in the prior year, management are in the process of correcting this as a prior period adjustment. Management also identified an additional two material errors in relation to the prior year financial statements which have also been corrected as prior period adjustments in the current year.

Introduction

The key messages in this report (continued)

Conclusions from our testing (continued)	• Subject to the satisfactory resolution of the outstanding areas of work noted above, including in relation to our significant risks, we envisage issuing an unmodified audit opinion on the financial statements and an except for qualification to the VFM Conclusion in relation to the Council's arrangements to plan, organise and develop the workforce to effectively deliver strategic priorities, and regarding effective working with partners to deliver strategic priorities, specifically in Children's' Services due to the findings of the recent Ofsted inspection.
Financial sustainability and Value for Money	As discussed on pages 12 and 13, we identified significant risks around the Council's financial sustainability and the recommendations from the Ofsted report relating to Children's services. The Council reported a deficit on the provision of services of £21.5m for the year with £2.7m use of reserves. As at 31 March 2019, the Council had £62m of useable reserves, cost saving delivery was £4.4m against a £5.5m target in 2018/19. The Council set a balanced budget for 2019/20 but faces significant financial pressures, especially in relation to Children's Services. Whilst the Council has sufficient reserves to meet any budget shortfall in 2019/20, it needs to continue to focus on measures to ensure medium term financial stability. In January 2019 Ofsted rated the Council's Children's Services as 'Inadequate'. The Council have adopted a transformation program, alongside substantial investment within Children's Services, to address the issues identified. We expect to issue an 'except for' qualification to the VFM Conclusion in respect of Children's Services due to the findings of the Ofsted inspection.
Narrative Report & Annual Governance Statement	We have reviewed the Council's Annual Report & Annual Governance Statement to consider whether it is misleading or inconsistent with other information known to us from our audit work. The Annual Governance Statement complies with the Delivering Good Governance guidance issued by CIPFA/SOLACE. We have suggested a number of minor changes to management for consideration.
Duties as public auditor	We did not receive any queries or objections from local electors this year. We have not identified any matters that would require us to issue a public interest report. We have not had to exercise any other audit powers under the Local Audit and Accountability Act 2014.
Whole of Government Accounts	We are required to report our overall audit opinion and key issues from our audit to the National Audit Office following completion of the audit. We expect the Council to be below the required thresholds which would require us to undertake detailed testing.

Paul Thomson
Audit Partner

Our audit explained

Final audit report

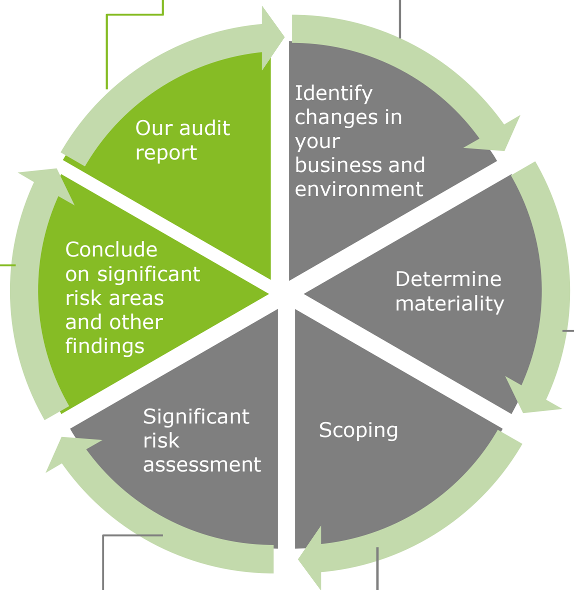
In this report we have concluded on the audit risks identified in our planning report and any other key findings from the audit.

Key developments in your business

As noted in our planning report, the Council continues to face challenges in relation to overspend in Children and Young People's Services.

Significant risk areas

Our work is ongoing and we draw to the Audit Committee's attention our conclusions on the significant audit risks. See page 7 to 13.



Materiality

Group materiality of £10.1m (Council only £9.4m) has been based on the benchmark of gross expenditure and is a small decrease from what we reported in our planning paper due to the updated final figures.

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

Significant risks

Our risk assessment process is a continuous cycle throughout the year. Page 7 provides a summary of our risk assessment of your significant risks.

Scope of the audit

We have scoped our work in line with the Code of Audit Practice issued by the NAO.

We undertake an audit on the group financial statements for the year ended 31 March 2019 of Blackpool Council.

Quality and Independence

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

Timeline 2018/19

November 2018 – February 2019
Meetings with management and other staff to develop our understanding of the Council's processes and controls.

26 February 2019
Presented planning paper to the Audit Committee

31 March 2019
Year end

June-July 2019
Review of draft accounts, testing of significant risk and performance of substantive testing of results.

15 July2019
Audit close meeting

22 July 2019
Audit Committee meeting

31 July 2019
Accounts sign off

Our audit explained: Scope of work and approach

We have three key areas of responsibility under the Audit Code

Financial statements

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

We are also required to issue a separate assurance report to the NAO on the Council's separate return required for the purposes of its audit of the Whole of Government Accounts and departmental accounts. This has a deadline of the 13th of September, which we expect to achieve.

Annual Governance Statement

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

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

Value for Money conclusion

We have satisfied ourselves that the Council has made proper arrangements for securing financial sustainability and economy, efficiency and effectiveness in its use of resources, with the exception of the arrangements to plan, organise and develop the workforce to effectively deliver strategic priorities and working with partners to deliver strategic priorities within the Children's Services.
To perform this work, we have:

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

Our work therefore included a detailed risk assessment based on the risk factors identified in the course of our audits. This is followed by specific work focussed on the risks identified.

We have then provided a conclusion on these arrangements as part of our final reporting to you, see page 12-13.

Significant risks
Dashboard

Risk	Material	Fraud risk	Planned approach to controls	Controls testing conclusion	Consistency of judgements with Deloitte's expectations	Slide no.
Completeness and Cut off of expenditure	✓	✓	D+I	Satisfactory	TBC	7
Property valuations	✓	✗	D+I	Satisfactory	TBC	8
Pension Liabilities	✓	✗	D+I	Satisfactory	TBC	9
Management override of controls	✓	✓	D+I	Satisfactory	TBC	10

Our work is ongoing in relation to the above significant risks and we will provide an verbal update at the committee.

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

- Financial sustainability
- Ofsted findings

See pages 12-13.

Overly prudent, likely to lead to future credit — Overly optimistic, likely to lead to future debit.

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

Significant risks

Risk 1 – Completeness and cut-off of expenditure

Risk identified	Under UK auditing standards, there is a presumed risk of revenue recognition due to fraud. We have rebutted this risk, and instead believe that a fraud risk lies with the completeness and cut-off of expenditure (as well as management override of controls as detailed on page 11). We identify this as relating to expenditure excluding payroll costs, depreciation and amortisation and expenditure which is grant backed. There is an inherent fraud risk associated with the under recording of expenditure in order for the Council to report a more favourable year-end position.
Our response	Our work in this area included the following: • We have obtained an understanding of the design and implementation of the key controls in place in relation to recording completeness and cut-off of expenditure (excluding payroll, depreciation and amortisation, and expenditure which is grant backed); • We are in the process of completing focused testing in relation to the completeness and cut-off of expenditure (excluding the areas set out above) including detailed reviews of provisions and accruals; and • We have reviewed and challenged the assumptions made in relation to year-end estimates and judgements to assess completeness and accuracy of recorded expenditure. This has been completed through our test of detail of provisions as at year-end.
Conclusion	From our work to date we have not identified any errors in our testing of completeness and cut off of service line expenditure, and have noted no issues with management’s judgements in relation to this balance. However as our work in this area remains in progress we will provide a verbal update at the Committee meeting.

Significant risks

Risk 2 – Property Valuations

Risk identified	The council held £356.9m of property assets which are revalued at 31 March 2018 which increased to £369.5m as at 31 March 2019. The movement was due to additions of £15.6m, revaluation movements of £8.6m, offset by depreciation of £11.6m. The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Council has adopted a rolling revaluation model which sees all land and buildings revalued over a four year cycle with a desktop annual exercise undertaken every year in between the full valuations. As a result of this, however, individual assets may not be revalued for four years. There is therefore a risk that that the value of property assets materially differ from the year end fair value.
Our response	Our work in this area included the following: • We have tested the design and implementation of key controls in place around the valuation of property; • We have reviewed the revaluations performed in the year, and have assessed whether they have been performed in a reasonable manner, on a timely basis, by suitably qualified individuals and using appropriate inputs; • We have reviewed the approach used by the Council to assess the risk that assets not subject to revaluation are materially misstated; • We have used our valuation specialists, Deloitte Real Estate, to support our review and challenge the appropriateness of the Council's assumptions on its assets values; and • We have tested a sample of revalued assets and re-perform the calculation assessing whether the movement has been recorded through the correct line of the accounts.

Conclusion	From our work to date, we have not identified any material issues with the Council's valuations but we have raised a number of recommendations in relation to the Council's processes around the property valuation. Please see page 16 for details. In addition to the above recommendations the Council has posted two prior period adjustments in respect of material errors in the financial statements which impact on the Property, Plant and Equipment balance, one relates to an impairment which was not included in the accounts at the time of the impairment in 2016/17, which reduced the property value by £25m and the other relates to a finance lease liability and the corresponding asset not being recognised in the prior year at the point at which the lease commenced (£17m). As our work in this area remains in progress we will provide a verbal update at the Committee meeting.

Significant risks

Risk 3 – Pension Liabilities

Risk identified	The net pension liability, £232.3m (2017/18: £209.6m) is a material element of the Council’s balance sheet. The valuation of the Scheme relies on a number of assumptions, including actuarial assumptions, and actuarial methodology which results in the Council’s overall valuation. Furthermore there are financial and demographic assumptions used in the calculation of the Council’s valuation – e.g. the discount rate, inflation rates, mortality rates. These assumptions should also reflect the profile of the Council’s employees, and should be based on appropriate data. There is a risk that the assumptions and methodology used in the valuation of the Council’s pension obligation are not reasonable. This could have a material impact to the net pension liability accounted for in the financial statements.
Our response	Our work in this area included the following: • We have obtained an understanding of the design and implementation of the key controls in place in relation to review of the assumptions by the Council and over information sent to the Scheme actuary; • We have evaluated the competency, objectivity and independence of the actuarial specialist; • Our review of the methodology and appropriateness of the assumptions used in the valuation, utilising a Deloitte Actuary to provide specialist assesment of the variables used is in progress; • We have engaged with the Pension Fund Auditors to gain further assurance over the completeness and accuracy of pension data provided to the Pension Fund and await their response; • We have reviewed the pension related disclosures in the financial accounts; and, • We have consider the valuation of pension assets.
Conclusion	The Council obtained an updated actuarial report to allow them to adjust the pension liability for the impact of the McCloud case, the adjustment has been included in the latest version of the financial statements and increases the net pension liability by £3.5m. Our internal pensions specialists are in the process of reviewing the updated report. As our work in this area remains in progress we will provide a verbal update at the Committee meeting.

Significant risks

Risk 4 – Management override of controls

Risk identified	In accordance with ISA 240 (UK) management override of controls is a significant risk due to fraud for all entities. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Council's controls for specific transactions. The key judgements in the financial statements include those which we have selected to be the significant audit risks, (completeness and cut-off of expenditure, Pension valuations and the Council's property valuations) and any one off and unusual transactions where management could show bias. These are inherently the areas in which management has the potential to use their judgment to influence the financial statements.
Our response	In considering the risk of management override, we have performed the following audit procedures that directly address this risk: • We have tested the design and implementation of key controls in place around journal entries and key management estimates; • We are in the process of completing our testing of a risk assessed sample of journals. The journal entries have been selected using computer-assisted profiling based on characteristics which we consider to be of increased interest; • We have reviewed accounting estimates on both an individual and cumulative level for biases that could result in material misstatements due to fraud; and, • We have obtained an understanding of the business rationale of significant transactions that we become aware of that are outside of the normal course of business for the Council, or that otherwise appear to be unusual, given our understanding of the Council and its environment.
Conclusion	Our work in relation to this risk is ongoing but to date we have not identified any issues in relation to management override and we will provide a verbal update at the committee meeting. No significant one off or unusual transactions have been identified from our work to date.

Value for Money

Significant Risk 1 – Financial Sustainability

Risk Identified	The Council's budget for 2018/19 was approved at the Council meeting on 9 March 2018, setting a savings target of £5.5m. As at the end of December, the Council is forecasting to deliver an overspend of £3.8m, mainly driven by the increased levels of demand in Children's Services. The need for savings continues to have a significant impact on the Council's financial sustainability. The Council, like most of local government, faces significant challenges over the short and medium term due to the ongoing cuts in funding and increased demand for services.
Our response	Our work in this area included: • Obtaining an understanding of the Council's Medium Term Financial Plan, budget for 2019/20 and transformation programmes. • Discussions with the Director of Resources, and senior operational staff; • Review of the Council's draft Narrative Report, Annual Governance Statement and Council papers and minutes; • Consideration of issues identified in our financial statements audit work; and • Consideration of the Council's financial results, including delivery of savings.
Conclusion	From our review of the Council's savings plan for 2019/20 we note that the Council faces significant financial challenges, including in relation to the additional investment in Children's Social Care as a result of the Ofsted review. Whilst, the Council has sufficient reserves to cover the potential shortfall in the year 2019/20, it should continue to focus as a priority on measures to ensure medium term financial stability. Our work is ongoing in relation to this risk and a recommendation has been raised. Based on work completed to date we do not expect to modify our VfM conclusion in relation to financial sustainability.

Value for Money (continued)

Significant Risk 2 – Ofsted Findings

Risk identified	In November and December 2018 Ofsted conducted an inspection of children’s social care services. Following this inspection the Children’s Services were given an overall rating in the report (January 2019) of ‘Inadequate’. The Inspectors acknowledged an improvement in leadership and a focus on improvement following the appointment of the new Director of Children’s Services but concluded that this was not to the level to ensure safe and effective services for all children due to the level of the previous decline. We have therefore identified a significant VfM risk over the delivery of the improvements required as a result of the Ofsted report.
Our response	Our work in this area involved: • Review of the Ofsted report and consideration of the findings and conclusions made in the Ofsted report; • Review of the Council’s plan for delivering actions to address the Ofsted findings; and • Review of management progress in developing and implementing the action plan and the arrangements put in place by the Council to deliver improvement.
Conclusion	We identified progress made towards delivering the actions required to address the Ofsted findings, including: • undertaking a resource review which has seen substantial additional funding allocated to increase the pace of change; • changes to oversight responsibilities and increased management capacity; • regular quality assurance monitoring reports The Council has also dedicated significant attention, time and investment to this matter going forward into 2019/20. We plan to issue an except for qualification to the VFM Conclusion in relation to the Council’s arrangements to plan, organise and develop the workforce to effectively deliver strategic priorities, and regarding effective working with partners to deliver strategic priorities, specifically in Children's' Services.

Other significant findings

Internal control and risk management

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

Area	Observation	Management comment	Priority
New accounting standards – IFRS 9 and 15	Although our work on IFRS 9 and 15 did not identify any material changes to the financial statements, we highlight that this has been done as a one off exercise to assess and calculate the impact of GAAP differences, without embedding into the Council's underlying systems, processes and controls. This presents a risk that new contracts or transaction may give rise to unanticipated impacts in future, or not be detected. We recommend the Council review how to update its day to day accounting processes, including any necessary system and control changes, to reflect the requirements of IFRS 9 and 15, and the process to be followed in assessing any new and unusual transactions.	Accepted. IFRS 9 and 15 have had a minimal impact in 2018/19 but a process will be introduced by the Finance and Budgeting Working Group to assess the impact of these standards on future transactions/contracts.	
Preparation for IFRS 16	The implementation of IFRS 16, Leases, for 2020/21 is expected to have a greater and more complex impact upon most Councils than the adoption of IFRS 9 and 15. The scope and potential complexity of work required, which may require system or process changes to underpin correct accounting under the standard, will require work to be completed at a significantly earlier stage than has been the case for IFRS 9 and 15 to allow for financial reporting timetables to be met. We recommend the Council targets completion of its IFRS 16 impact analysis during 2019/20, and to calculate an adjusted opening balance sheet position for audit following the 31 March 2020 audit. We recommend early consideration following the impact analysis of actions required to embed IFRS 16 accounting in the Council's underlying accounting systems.	Accepted. Work has already started to assess the impact of IFRS 16 on the material leases. Adjusted opening balance sheet will be prepared in line with the recommendation.	

Other significant findings (continued)

Internal control and risk management

Area	Observation	Management comment	Priority
Arrangements to secure economy, efficiency and effectiveness in the use of resources – Children's services	We note the finding raised by Ofsted following their inspection of children's social care services in the current year which has resulted in an overall inadequate rating for the Council's service. We have held discussions with management to understand the processes and procedures that have been put in place to implement the required changes. We recommend that the Council ensure that there continues to be sufficient senior officer input and that appropriate governance and monitoring structures are used to ensure that the required changes are implemented in a timely manner.	Noted. Additional partnership senior leadership oversight will be established in Autumn 2019 through the development of a children and families strategic partnership board supported by an independent chair.	●
Arrangements to secure economy, efficiency and effectiveness in the use of resources – Financial sustainability	The process that the Council undertakes in assessing its funding gap shows good consideration of the overall financial position by including identified pressures and the impact that current year schemes will have going forward. From our review of the schemes currently identified in relation to the 2019/20 plan we noted that the majority will only have a non-recurrent impact in 2019/20 which will increase the level of savings which the Council will be required to achieve in the following years. The Council need to ensure that it has the correct processes and procedures in place to identify and implement the required levels of savings to ensure medium term financial stability.	Noted and under continuous review	●

Other significant findings (continued)

Internal control and risk management

Area	Observation	Management comment	Priority
Property Valuations	A number of recommendations and best practice points have been identified from our work: • The Council should put in place detailed commissioning/terms of engagement documentation covering the minimum contents of Terms of Engagement/Service Line Agreement as specified by the RICS and CIPFA. • The overriding valuation report which accompanies the summary schedules should include all relevant details on the general valuation methodology to limit the number of queries received from our property specialists. • Where build cost indexation is used as part of an interim valuation the council should ensure that it is not applied to the land values of the assets. • The Council should ensure that Non-Operational Assets are appropriately spit between Surplus and Assets held for sale. • The valuation worksheets for the individual assets should providing factual descriptive information on the property, commentary on valuation approach/considerations, evidence to support the key inputs and a detailed breakdown of the valuation. • All Specialised asset should be valued on a detailed modern equivalent asset (MEA) depreciated replacement cost basis as updating the values on a derived build cost index is not recommended or best practice.	Accepted. The recommendations will be implemented by Finance, Assets and Estates and Growth and Prosperity teams and progress will be reported to the Corporate Asset Management Group.	●
IT	There is no formal approval process in place for the for configuration changes made to the Capita and Selima systems; the Council rely on the Administrators. Essentially changes can be made to the system without any form of approval from appropriate personnel, which makes them unauthorised and potentially inappropriate. It has also been noted that that the individual who develops and tests a change on the CEDAR, Orchard and Selima systems, can also be responsible for the implementation of the change in to the live environment.	Any fixes/patches we apply in Cedar are applied to the test system and are fully tested by both the systems team and the users of the module affected. These incidents are logged both on the Advanced user helpdesk and on our incidents spreadsheet which documents the area/service affected along with the user at Blackpool that has identified the issue. The fix wouldn't be applied to live without confirmation the issues are resolved from both the users and the systems team.	●

Other matters

Housing Revenue Account review

Matter identified	As part of our responsibilities as the appointed auditor to Blackpool Council we have undertaken a review of Blackpool Council's accounting treatment in relation to its Housing Revenue Account and specifically the statutory ring-fence for the years ended 31 March 2017 and 31 March 2018.
Response	Our work was structured into three parts: 1. Budgeting: In which we considered the clarity with which the budget has been set and managed; 2. Areas of Expenditure: In which we considered whether the attributable spend falls within the scope of the HRA; and 3. Controls: In which we considered the controls designed to enforce the HRA ring fence.
Conclusion	Our work has concluded that there are a range of areas in need of improvement and points where the practice of the Council must be clarified to ensure the proper operation of the ring fence and consequently we have made a number of important recommendations which have been discussed and agreed with senior officers. The most significant finding was connected to our work on 'areas of expenditure' where we identified two transactions between Blackpool Coastal Housing (BCH) and the Council, where BCH had made a payment to the Council from its accumulated reserves. Whilst, management have obtained legal advice on BCH's ability to make such payments and management do not consider the transactions to be breaching the statutory ring-fence, we are concerned that payments from BCH to the Council could be perceived as an unfair allocation of resources between council tenants and the wide population represented by the Council.
Key recommendations	We recommend that the Council ceases its policy in relation to BCH making periodic transfers of accumulated reserves to the Council's General Fund. We will monitor managements implementation of our recommendations during 2019/20.

Our audit report

Matters relating to the form and content of our report

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

Our opinion on the financial statements

Based on our work to date we expect our opinion on the financial statements to be unmodified.

Material uncertainty related to going concern

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

Emphasis of matter and other matter paragraphs

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

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

Our value for money conclusion

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

Based on the work undertaken we expect to issue an except for opinion in relation to the Council's arrangements.

Other reporting responsibilities

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

Your annual report

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

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

UK exit from the EU

Navigating uncertainty – key questions for the audit committee

Is Blackpool Council set up to navigate the change?

Have you assessed the impact of potential changes and identified key decision points?

Does your assessment include how Brexit could impact on your customers, supply chain and people?

Will additional financing facilities be needed?

Have you defined the options there are to respond? E.g. scenario or contingency planning?

Are you monitoring developments and are you ready to act proportionately at the right time?

Are all the right people involved? Does this include discussion with key stakeholders?

Are channels of communication clear, both internally and externally, and have company spokespeople been fully briefed?

FRC Letter to CFOs and Audit Committee Chairs, October 2018:

"We encourage companies to provide disclosure which distinguishes between the specific and direct challenges to their business model and operations from the broader economic uncertainties which may still attach to the UK's position when they report. Where there are particular threats, for example the possible effect of changes in import/export taxes or delays to their supply chain, we expect these to be clearly identified and for management to describe any actions they are taking, or have taken, to manage the potential impact. In some circumstances this may mean recognising or remeasuring certain items in the balance sheet.

The broad uncertainties that may still attach to Brexit when companies report will require disclosure of sufficient information to help users understand the degree of sensitivity of assets and liabilities to changes in management's assumptions."

UK exit from the EU

Impact on our audit

There is a need to consider implications for your business and for accounting and reporting matters to address in the annual report.

Area	Management actions	Impact on Blackpool financial statements	Impact on our audit
Principal risks and uncertainties	The Council has reviewed the impact of Brexit within the strategic risk register with an update on progress being presented at the next audit committee, 25th July. The Brexit Task and Finish Group have prepared a risk register of the key risks and this will be considered as part of the internal audit in terms of whether the Council is taking appropriate action to mitigate against them In the current year financial statements, no disclosure has been made in the audited financial statements.	You have updated your principal risks to reflect the impact of brexit. However, these risks and impacts were not included within the draft financial statements. As a firm we believe most organisations should refer specifically to the impact of the exit negotiations, or comment that they have considered the matter and determined that no additional disclosure is required.	We have raised a point around the disclosures in the narrative report and AGS, and management have added the relevant information to the financial statements.
Going concern	The ability of the Council to provide its critical and regulatory services which it is responsible for have been assessed within the Brexit Risk Register. No updates have been made to the draft financial statements.	An assessment of the proportion of the EU Nationals working for the Council and contingency arrangements considered in the case of a no-deal Brexit. An assessment of the potential impact of a no-deal Brexit on regulatory services such as environmental health and trading standards and implement contingency plans to respond and increase demand.	We have raised a point around the disclosures in the narrative report and AGS, and management have added the relevant information to the financial statements.

UK exit from the EU

Navigating uncertainty – key questions for the audit committee

Impact on internal planning, forecasting and strategy

Is management using forward-looking indicators such as forward bookings, contact conversion rates and supplier forward pricing?

Is there a significant impact from foreign exchange changes and volatility?

Have cash reserves, financing requirements and longer term viability all been assessed?

Have opportunities as well as risks been considered?

Impact on internal and external audit

Should the scope and plan for internal audit be amended to include contingency planning, or testing key risk indicators?

Should internal audit be asked to perform work on longer term viability?

Is there an impact on critical accounting judgments and areas of estimation uncertainty that need to be discussed with the external auditor?

Impact on external reporting

Will disclosures on principal risks and uncertainties need to be revisited now Article 50 has been triggered and the draft Withdrawal Treaty has been published.

Does longer term viability statement account for the fact that the end of the exit negotiation period is now within the lookout period?

Have you developed a plan for appropriately detailed disclosure in the Narrative Report?

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

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

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

What we don't report

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

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

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

The scope of our work

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

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

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

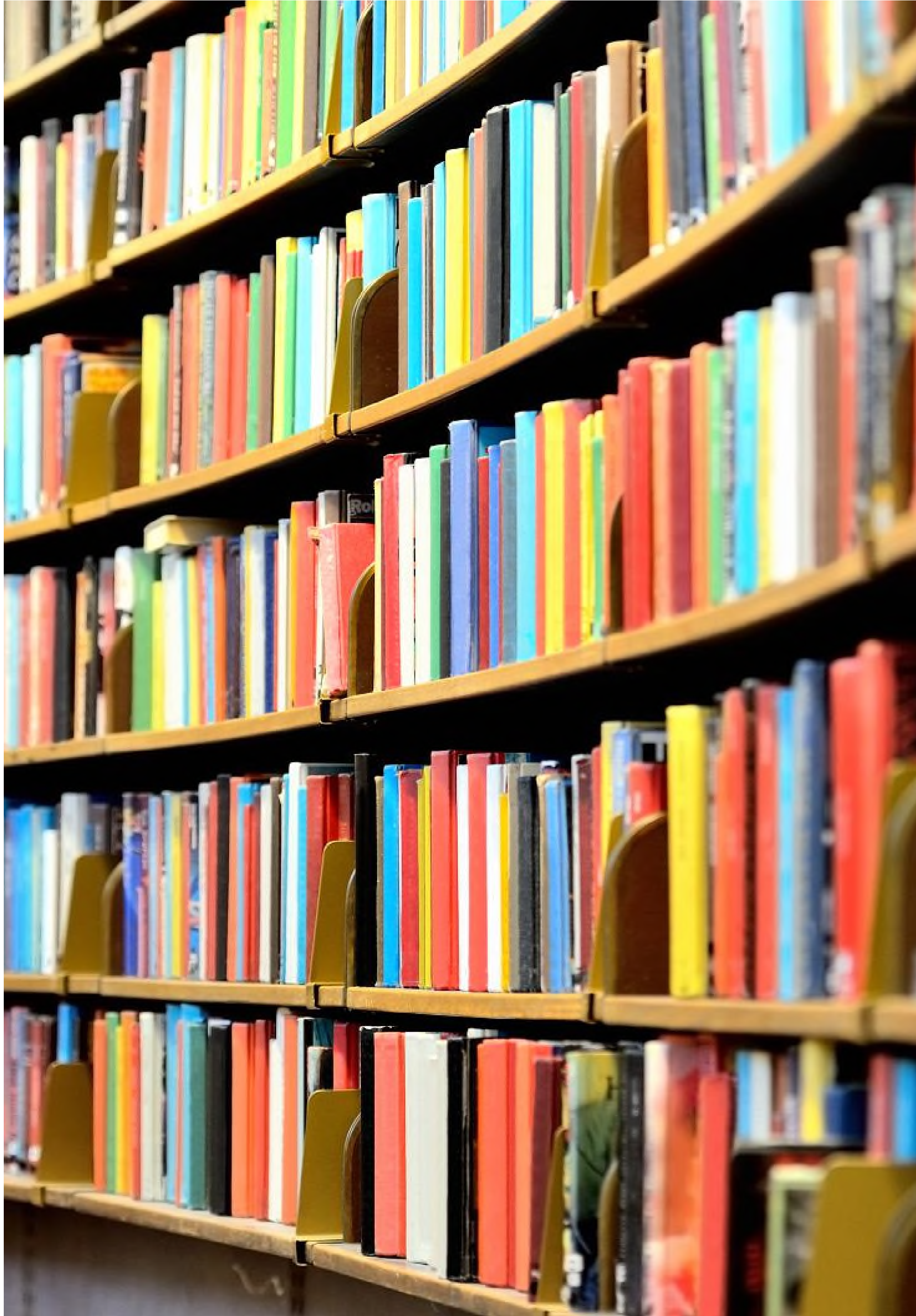
Use of this report

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

Deloitte LLP

Leeds| 19 July 2019

Appendices



Audit adjustments

Unadjusted misstatements and disclosures

Up to the date of this report our audit work has identified a number of misstatements in the financial statements, management are in the process of correcting these in the financial statements and we will undertake a further review once the final version of the financial statements is received.

Disclosure misstatements

From our work to date a number of disclosure deficiencies were identified, management have confirmed that they will update for all significant deficiencies and we will undertake a final review once this have been completed. However, our work is ongoing and we will provide an update to the committee on any additional disclosure deficiencies identified.

Fraud responsibilities and representations

Responsibilities explained

Responsibilities:

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

Required representations:

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

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

Audit work performed:

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

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

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

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

Concerns:

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

Independence and fees

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

Independence confirmation	We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Council and and our objectivity is not compromised.
Fees	Our audit and assurance fees for 2018/19 are set out on the following page.
Non-audit services	In our opinion there are no inconsistencies between the FRC's Ethical Standard and the company's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	We have not other relationships with the Council, its directors, senior managers and affiliates, and have not supplied any services to other known connected parties.

Independence and fees

	Proposed £ (exc VAT)	Comments
Code audit fee	£84,818	
Fees for Housing Revenue Account review	£15,000	Our report is in the process of being finalised.
Total audit	£99,818	
Fees for reporting on the housing benefit subsidy claim	£10,250	Work is ongoing in respect of the 2018/19 housing benefit subsidy claim. The fee is subject to any exceptions identified during testing and consequent additional testing.
Total assurance services	£10,250	
Total fees	**£110,068**	