



**Annual Audit Letter on the
2018/19 External Audit
Blackpool Council**

January 2020

Contents

	Page
1 Letter to Members	3
2 Key Messages	4
3 Responsibilities and Scope	6
4 Audit of the Accounts	7
5 Value for Money	10
6 Other Matters	12

1. Letter to Members

The Members
Blackpool Council
One Bickerstaffe Square
Talbot Road
Blackpool
FY1 3AH

14 January 2020

Dear Sirs

We have pleasure in setting out this Annual Audit Letter to summarise the key matters arising from the work that we have carried out in respect of the year ended 31 March 2019.

Although this letter is addressed to the Members of City of Blackpool Borough Council ("the Authority"), it is also intended to communicate the significant issues we have identified, in an accessible style, to key external stakeholders, including members of the public. The letter will be published on the Public Sector Audit Appointments Ltd website at www.psa.co.uk and on the Authority's website.

This letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. This is available from www.psa.co.uk.

This letter has been discussed and agreed with the Chief Finance Officer. A copy of the letter will be provided to all Members.

This is our first year as the external auditor of the Authority following the transition of the PSAA contract in 2018/19. We would like to take this opportunity to thank you for your assistance and co-operation during this year's external audit. Our aim is to provide a high standard of audit, delivering insights identified from our audit work to make a positive and practical contribution, which supports the Authority's own agenda. We recognise the value of your co-operation and support.



Deloitte LLP
Leeds, United Kingdom

2. Key Messages

Statement of Accounts	
<p>Unmodified opinion issued for the year ended 31 March 2019</p>	<p>In 2018/19 the Authority was required to prepare its Statement of Accounts in accordance with International Financial Reporting Standards (“IFRS”) as defined in the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and other relevant legislation.</p> <p>Through our audit planning we identified four significant risks of material misstatement which we addressed through our audit. These were:</p> <ul style="list-style-type: none"> • Completeness and cut off of service line expenditure; • Accuracy of valuation of property assets; • Valuation of pension liabilities; and • Management override of controls. <p>Materiality for the Authority’s accounts was set at £9,378,060.</p> <p>We issued an unmodified audit opinion on the financial statements for the year ended 31 March 2019 on 29 November 2019. As part of our audit, we identified a large number of adjustments to the financial statements, which led to the significant delay in the approval and signing of the accounts. In addition to this there were a small number of unadjusted misstatements which are set out on page 9.</p>
Value for Money conclusion	
<p>Qualified ‘except for’ opinion issued for the year ended 31 March 2019</p>	<p>We are required to base our statutory Value for Money (VfM) conclusion on the criteria specified by the National Audit Office, namely whether the Authority has in place proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.</p> <p>Through our audit planning we identified two significant VfM risks which we addressed. These were:</p> <ul style="list-style-type: none"> • Financial sustainability; and • Ofsted findings. <p>We have issued an ‘except for’ qualification to the VfM Conclusion in respect of Children’s social care services due to the findings of the Ofsted inspection and the overall ‘Inadequate’ rating.</p>

Annual Governance Statement

<p>All relevant governance matters were adequately and appropriately disclosed</p>	<p>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.</p> <p>The Annual Governance Statement complies with the Delivering Good Governance guidance issued by CIPFA/SOLACE.</p> <p>We suggested a number of minor changes to management for consideration which have been made.</p>
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Whole of Government accounts

<p>The Authority is below the audit threshold</p>	<p>The Authority prepares a consolidation pack to support the production of Whole of Government Accounts by HM Treasury. We are not required to review this pack as the Authority falls below the threshold where an audit is required.</p> <p>As required we have confirmed this fact to the National Audit Office which was done following the signing of the accounts.</p>
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Audit findings

<p>A number of recommendations were made to improve internal controls and financial reporting.</p>	<p>During our audit we identified a number of areas for improvement in internal controls and procedures which were communicated to management and the Audit Committee.</p>
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Audit Certificate

<p>We issued our certificate on 29 November 2019</p>	<p>We issued our certificate on 29 November 2019. The certificate confirms that we have concluded the audit for 2018/19 in accordance with the requirements of the Local Audit & Accountability Act 2014 and the Code of Audit Practice.</p>
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Certification of grants and returns

<p>We will undertake work on three returns in relation to 2018/19.</p>	<p>We have completed our work in relation to the Housing Benefit Subsidy and the Teachers’ pension return and we issued unqualified reports on 28 November 2019.</p> <p>Our work in relation to the Pooling of Housing Capital Receipts return will be completed ahead of the reporting deadline of 7 February 2020.</p>
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3. Responsibilities and Scope

Responsibilities of the Authority and Auditors

The Authority is responsible for maintaining the control environment and accounting records and preparing the accounting statements in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 based on IFRS and other relevant legislation.

We are appointed as the Authority’s independent external auditors by Public Sector Audit Appointments Limited (PSAA), the body responsible for appointing auditors to local public bodies in England.

As the Authority’s appointed external auditor, we are responsible for planning and carrying out an audit that meets the requirements of the National Audit Office’s Code of Audit Practice (“the Code”). Under the Code, we have responsibilities in two main areas:

- auditing the Authority’s accounts; and
- evaluating whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion).

The scope of our work

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) as adopted by the UK Auditing Practices Board (“APB”). The audit opinion on the accounts reflects the financial reporting framework adopted by the Authority, being the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 based on IFRS and other relevant legislation.

We conducted our work on the value for money conclusion in line with guidance issued by the National Audit Office in November 2017, in respect of local government bodies for the financial year ended 31 March 2019.

4. Audit of the Accounts

Statement of Accounts	
Unmodified opinion on the financial statements issued for the year ended 31 March 2019	<p>We issued an unmodified opinion on the Authority's accounts for the year ended 31 March 2019.</p> <p>Before we give our opinion on the accounts, we are required to report to Those Charged with Governance any significant matters arising from the audit. A detailed report was discussed with the members of the Audit Committee on 25 July 2019 and an additional update was provided on 27 November 2019.</p>
Materiality	<p>We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.</p> <p>Based on our professional judgement, materiality for the Authority's accounts was set at £9,378,060 which equated to 2% of gross expenditure. This benchmark was chosen as the Authority is a non-profit organisation and total expenditure is a key measure of financial performance for users of the financial statements.</p> <p>The level of materiality shapes and informs the extent of the audit work we undertook, including review of balances which are below this which exhibit particular characteristics. This assists in the identification of transactions and balances which were likely to give rise to material misstatements, and in determining the extent of work undertaken in respect of the areas we judged to contain such risks.</p> <p>We agreed with the Audit Committee that we would report to the Committee all uncorrected audit differences in excess of £469,900, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We would also report to the Audit Committee on any uncorrected disclosure matters identified when assessing the overall presentation of the financial statements.</p>
Significant Risks	<p>Our audit work was designed to specifically address the following significant audit risks which are presented in further detail below. Significant audit risks are the areas deemed to be those with the greatest potential of being materially incorrect in the financial statements and are therefore areas of greater focus for the audit team.</p> <p>Whether the Statement of Accounts contained all of the expenditure relating to the year ended 31 March 2019 (Completeness and cut off of expenditure) – We obtained an understanding of the controls in place that management rely upon to ensure that year-end transactions are correctly brought into (accrued) the expenditure reported for the year. We selected a sample of items recorded in expenditure in April to May 2019 and confirmed that they had been charged to the correct accounting period.</p>

	<ul style="list-style-type: none"> • Whether the disclosed value of assets subject to revaluation differs materially from the year end fair value– We obtained an understanding of the key controls in place around the revaluation of the Authority’s property and performed detailed testing of the revalued assets including seeking the view of our internal valuation specialists as to whether the methodology employed by the Authority appeared reasonable. We also reviewed the approach used by the Council to assess the risk that assets not subject to revaluation are materially misstated. From our work, we have not identified any material issues with the Authority’s valuations but we have raised a number of recommendations in relation to the Authority’s processes around the property valuation. • Whether the Authority’s pension liability in respect of the Lancashire County Pension Fund is fairly stated - The valuation of the Scheme relies on a number of assumptions, including actuarial, financial and demographic assumptions and there is a risk that these do not reflect the profile of the Authority’s employees and are not reasonable. We obtained an understanding of the controls in place to ensure the Authority reviews the assumptions used and that the information sent to the Actuary is complete and accurate. Our actuarial specialist reviewed the assumptions used and we reviewed the accounting disclosures in respect of pensions. Particular challenges faced by the Authority in 2018/19 related to assessing the impact on the reported pension liabilities from the recent McCloud legal judgement. • Whether the Authority’s controls had been bypassed by management in the preparation of the financial statements (Management override of controls) – We obtained an understanding of the key controls in place around journal entries and judgements made in the preparation of the financial statements. Using Computer Assisted Auditing Tools we identified a number of journals which exhibited characteristics of audit interest and performed detailed testing on these journals. We also reviewed the key accounting judgements for bias. Our work did not identify any errors requiring correction.
<p>Overall opinion</p>	<p>We issued an unmodified opinion on the financial statements for the year ended 31 March 2019 on the 29 November 2019.</p>
<p>Key issues from work performed on the Statement of Accounts</p>	
<p>Misstatements identified</p>	<p>We received a set of draft accounts in line with the agreed deadline, which were supported by working papers. The finance staff were helpful throughout the process.</p> <p>From our audit we identified a wide range of issues, including misstatements in the comparative financial information, these were communicated to the Authority for correction.</p> <p>Following corrections the final Statement of Accounts upon which we issued our opinion contained four uncorrected misstatements above our clearly trivial threshold, an overstatement of grants received in advance (£1.8m), an overstatement of the insurance provision (£1m), a judgemental overstatement</p>

	of Council debtors (£0.5m), and a judgemental overstatement of debtors within one of the Authority's subsidiaries (£0.5m).
Annual Governance Statement	
The Statement includes all appropriate disclosures and is consistent with our understanding of the Authority's governance arrangements	<p>As appointed auditor, we review the Annual Governance Statement ("AGS") and comment on any inconsistencies noted between the AGS and our audit work, other work relating to the Code of Audit Practice, and our understanding of the Authority's Governance arrangements.</p> <p>We have concluded that the Statement includes all appropriate disclosures and is consistent with our understanding of the Authority's governance arrangements and internal controls derived from our audit work.</p>
Powers and Duties	
We did not receive any questions about the accounts or make any public interest reports	<p>Under the Local Audit and Accountability Act 2014, auditors have specific powers and duties, including to give electors the opportunity to raise questions about the accounts and to consider and decide upon objections received in relation to the accounts. We did not receive any such questions or objections.</p> <p>We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or if the public should know about.</p> <p>We have not identified any matters that would require us to issue a public interest report.</p>
Whole of Government Accounts return	
The Authority is below the audit threshold	<p>The Authority prepares a consolidation pack to support the production of Whole of Government Accounts by HM Treasury. We are not required to review this pack as the Authority falls below the threshold where an audit is required.</p> <p>As required we have confirmed this fact to the National Audit Office which was done following the signing of the accounts.</p>
Audit Certificate	
We issued our certificate on 29 November 2019	We issued our certificate on 29 November 2019. The certificate confirms that we have concluded the audit for 2018/19 in accordance with the requirements of the Local Audit & Accountability Act 2014 and the Code of Audit Practice.

5. Value for Money

Background and approach

We are required to issue a value for money ("VfM") conclusion within our report on the Authority financial statements. We are required to base our VfM conclusion on criteria specified by the National Audit Office ("NAO") where we are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources. Our assessment is based on the following reporting criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people."

The following sub-criteria are then used to inform and guide our work and inform our overall judgement although there is no requirement to separate these nor to report against each sub-criteria:

- Informed decision making;
- Sustainable resource deployment; and
- Working with partners and other third parties.

We would emphasise that it is the arrangements in place that we are required to assess, and not the actual decisions made by the Authority.

We planned our local programme of work based on our risk assessment, which was informed by a series of risk factors determined by the National Audit Office.

The key audit risks we identified as part of our overall audit strategy were:

- Financial sustainability; and
- Ofsted findings in respect of Children's Services.

Financial sustainability

We have considered the financial standing of the Authority through review of the outturn in 2018/19, budgets for 2019/20 and the medium term financial plan. The Authority is clearly facing significant financial challenges but we have no specific concerns over the response to those challenges or the financial standing of the Authority.

We have considered the financial standing of the Authority as at 31 March 2019. We have assessed this based on current/on-going expenditure demands, expected income levels and the current cash position of the Authority. The current level of usable reserves is adequate in light of the Authority's current risk assessment.

Ofsted findings in respect of Children's Services

Having performed our work in line with guidance received from the National Audit Office we issued an 'except for' qualification to the value for money conclusion for the 2018/19 financial year.

On 17 January 2019, Ofsted published a report in relation to their inspection of the Authority's Children's social care services, which provided an overall grading of 'inadequate'. The report

Ofsted findings in respect of Children's Services

concluded that there were longstanding and widespread failures in the quality of social work practice that means that many children are not having their needs responded to in the right way or at the right time. Inspectors found cases of children in the services for whom risk had not been identified and where appropriate action had not been taken to help and protect them.

Since the inspection the Authority has dedicated significant attention, time and investment to this matter going into 2019/20. The most recent report on progress from the Commissioner's review (July 2019) found that staff have reported substantial improvement since January 2019 with clearer guidance, better training, support, communication and engagement but that the system changes required will take time.

VfM Conclusion

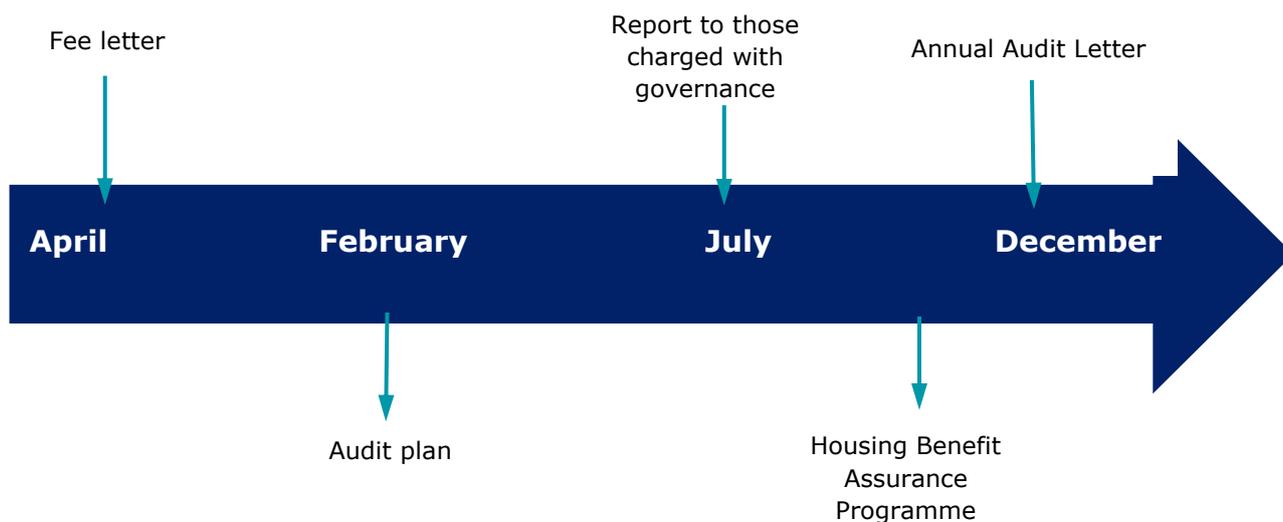
Based on the work undertaken we have issued an 'except for' qualification to the VfM Conclusion in respect of Children's social care services as the Authority's did not put in place proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned sustainable outcomes, including working with partners for the year ended 31 March 2019.

6. Other Matters

Reports issued

Reports issued during the course of the 2018/19 audit included:

- fee letter for the Authority;
- audit plans for the Authority;
- reports to those charged with governance on the 2018/19 audit of the Authority; and
- an annual audit letter.



Analysis of audit fees

Audit fees charged are as follows:

	2019 £
Total fees for the audit of the Authority's annual accounts, VfM conclusion and whole of government accounts return	84,818
Additional fees for addressing issues identified by the audit	25,000*
Additional fees for Housing Revenue Account review	15,000
Total audit fees	124,818
Fees payable in relation to Housing Benefit Assurance Programme work	10,250
Grant certification	8,000
Total assurance services	18,250
Total fees (excluding VAT)	143,068

* Subject to review and agreement by the Council.

Independence and objectivity

In our professional judgement, our policies and safeguards that are in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit partner and audit staff is not impaired.

We confirm that we comply with FRC Ethical Standards for Auditors and that, in our professional judgement, we and, where applicable, all Deloitte network firms are independent and our objectivity is not compromised.

In our opinion there are no inconsistencies between FRC Ethical Standards for Auditors and the Council'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.

We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the Council, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence.

We are not aware of any relationships which are required to be disclosed.

No matters impacting our independence have arisen during the year.

Statement of Responsibilities

The Statement of Responsibilities of Auditors and Audited Bodies issued by PSAA explains the respective responsibilities of auditors and of the audited body and this report is prepared on the basis of, and our audit work is carried out in accordance with, that statement.

The matters raised in this report are only those that came to our attention during our audit and are not necessarily a comprehensive statement of all weaknesses that exist or of all improvements that might be made. You should assess recommendations for improvements for their full implications before they are implemented. In particular, we would emphasise that we are not responsible for the adequacy and appropriateness of the national data and methodology supporting our value for money conclusion as they are derived solely from the National Audit Office.

This report has been prepared for the Members, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other party.

An audit does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the Annual Audit Letter since first published. These matters are the responsibility of the Authority but no control procedures can provide absolute assurance in this area.



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