APPENDIX 10(a)

Deloitte.

Blackpool Council

Planning report to the Audit Committee for the year ending 31 March 2020

Issued on 3 March 2020 for the Audit Committee on 12 March 2020

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Introduction

The key messages in this report:

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

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

We have pleasure in presenting our planning report to the Audit Committee for the 2020 audit. We would like to draw your attention to the key messages of this paper:

Scope of our work	Our audit work will be carried out in accordance with the requirements of the Code of Audit Practice ('the Code') and supporting guidance published by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General. The Code sets the overall scope of the audit which includes an audit of the accounts of the Council and work to satisfy ourselves that the Council has made proper arrangements to secure Value for Money (VfM) in its use of resources. There have not been any changes to the Code itself and therefore the scope of our work is broadly similar to the scope of work set in the prior year. Our responsibilities as auditor, and the responsibilities of the Council are set out in 'PSAA Statement of responsibilities of auditors and audited bodies: Principal Local Authorities and Police Bodies' published by Public Sector Audit Appointments Limited.
Areas of focus in our work on the accounts	We summarise below the areas of significant risk we have identified to date, they are consistent with the significant risks identified in the prior year: • Completeness of accrued expenditure – there is an inherent fraud risk associated with the under recording of expenditure in order for the Council to report a more favourable year-end position. We specifically focus this on expenditure accruals. • Property valuations – valuations are inherently judgemental and include a number of assumptions. • Pension liabilities – there is significant judgement in relation to the assumptions and methodology used in the valuation of the Council's pension obligation. • Management override of controls – auditing standards presume there is a risk that the accounts may be fraudulently misstated by management overriding controls. Key areas of focus are: bias in the preparation of accounting estimates; inappropriate journal entries; and transactions which have no economic substance.

Introduction

The key messages in this report:

International Financial Reporting Standard (IFRS) 16 - Leases	IFRS 16 (Leases) is mandatory for Local Authorities from periods commencing on or after 1 April 2020. The new leasing standard will have a significant impact on how the Council accounts for its current leasing arrangements, as well as implications for any future leases agreed. IAS 1 will require disclosure of the expected impact of IFRS16 in the 2019/20 accounts. We recommend that the Audit Committee receive reporting in year from management on the implementation and expected impact of IFRS 16.
Areas of focus in our work on Value for Money (VfM)	The Code and supporting Auditor Guidance Note require us to perform a risk assessment and to carry out further work where we identify a significant risk. We qualified the VfM opinion in 2018/19 in relation to the Council's Ofsted rating in their January 2019 report on Children's Services which graded the Council 'inadequate'. We regard this qualification as a significant risk area and will undertake work to conclude whether or not the matters giving rise to the previous year's qualification are also relevant to the current year. We identified a significant VfM risk around financial sustainability in 2018/19. Our opinion was not qualified in respect of this matter in 2018/19. We have identified a significant risk in relation to financial sustainability in the current year and note that the Council has a savings target for 2019/20 of £9m and this will be challenging to achieve. During the year the Council acquired the Houndshill Shopping Centre. We will consider the acquisition as part of our ongoing VfM risk assessment given the size of the acquisition (£47.6m purchase price). We will also consider the adequacy of the due diligence process and may involve a specialist in our review of this area. Our risk assessment to determine whether there are further VfM risks is at an early stage. We expect to carry out the remainder of our risk assessment process in March/April. We will then perform update procedures in June, in particular to update for the findings of internal audit work completed in the latter part of the year, outturn performance against financial and operational metrics and the outcome of any findings from regulators.
Brexit	The Council will be preparing its Annual Report against the backdrop of continued uncertainty related to Brexit. The Council will also need to consider the inclusion of Brexit in the Annual Report for 2019/20, particularly in the areas of risk reporting, going concern and impairment.

Responsibilities of the Audit Committee

Helping you fulfil your responsibilities

Why do we interact with the Audit Committee?

To communicate audit scope

To provide timely and relevant observations

To provide additional information to help you fulfil your broader responsibilities

As a result of regulatory change in recent years, the role of the Audit Committee has significantly expanded. We set out here a summary of the core areas of Audit Committee responsibility to provide a reference in respect of these broader responsibilities.

Oversight of external audit

- At the start of each annual audit cycle, ensure that the scope of the external audit is appropriate.

Integrity of reporting

- Impact assessment of key judgements and level of management challenge.
- Review of external audit findings, key judgements, level of misstatements.
- Assess the quality of the internal team, their incentives and the need for supplementary skillsets.
- Assess the completeness of disclosures, including consistency with disclosures on business model and strategy.

Internal controls and risks

- Review the internal control and risk management systems
- Explain what actions have been, or are being taken to remedy any significant failings or weaknesses.

Oversight of internal audit

- Monitor and review the effectiveness of the internal audit activities.
- Consider annually whether the scope of the internal audit programme is adequate.

Whistle-blowing and fraud

- Ensure that appropriate arrangements are in place for the proportionate and independent investigation of any concerns that are raised by staff in connection with improprieties.

Our audit explained

We tailor our audit to your business and your strategy

Identify changes in your business and environment

We have spent time with management understanding the current year matters and prepared our risk assessment, which we will continue to keep under review throughout the audit process. The Council has purchased the Houndshill Shopping Centre and established two new subsidiary companies in year.

Scoping

Our work will be carried out in accordance with the Code of Audit Practice and supporting auditor guidance notes issued by the NAO.

More detail is given on page 7.

In our final report

In our final report to you we will conclude on the significant risks identified in this paper and report to you our other findings.

Determine materiality

We have determined a planning materiality for the Group and Council only of £10.1m (2018/19 £10.1m) and £9.5m (2018/19 £9.4m) respectively. This is based on 2% of forecast gross expenditure. We will report to you any misstatements above £0.5m (2018/19 £0.5m). We will also report to you any misstatements below this threshold if we consider them to be material by nature.

We will revise materiality on receipt of the draft financial statements for 2019/20.

Significant risk assessment

The significant risks identified in 2018/19 remain the same in 2019/20. More detail is given on pages 11 to 16.

We have identified significant VfM risks in relation financial sustainability and the Ofsted findings at the planning stage following the qualification issued in the prior year.

More detail is given on pages 17-18.

Quality and Independence

We confirm all Deloitte network firms and engagement team members 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.

Scope of work and approach

We have four key areas of responsibility under the Audit Code

Financial statements

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

We report on whether the financial statements:

- Give a true and fair view of the financial position and income and expenditure; and
- Are prepared in line with the Code of Practice on Local Authority Accounting (''the Code'').

Opinion on other matters

We are required to report on whether other information published with the audited financial statements is consistent with the financial statements.

Other information includes information included in the Statement of Accounts, in particular the Narrative Report. It also includes the Annual Governance Statement which the Council is required to publish alongside the Statement of Accounts.

In reading the information given with financial statements, we take into account our knowledge of the Council, including that gained through work in relation to the Council's arrangements for securing value for money through economy, efficiency and effectiveness in its use of resources.

Value for Money conclusion

We are required to provide a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We carry out a risk assessment to identify any risks that, in our judgement, have the potential to cause us to reach an inappropriate conclusion on the audited body's arrangements. The risk assessment enables us to determine the nature and extent of further work which may be required.

We also consider the impact of findings from other inspectorates, review agencies and other relevant bodies on their risk assessment, where they are relevant and available.

Group audit

We will be undertaking our scoping of the components for the Group audit as part of our interim work and will communicate directly with the auditors of the significant components in relation to the work that we require them to carry out to support our audit opinion on the group accounts. In the prior year the following were identified as material in the context of the group audit:

- Blackpool Coastal Housing;
- Blackpool Transport Limited;
- Blackpool Entertainment Company Limited;
- Blackpool Housing Company; and
- Blackpool Operating Company Limited.

We will notify the Committee of any changes once we have completed our scoping and will reassess the significance of the subsidiaries throughout our audit.

Scope of work and approach

Our approach

Liaison with internal audit

The Auditing Standards Board's version of ISA (UK) 610 "Using the work of internal auditors" prohibits use of internal audit to provide "direct assistance" to the audit. Our approach to the use of the work of Internal Audit has been designed to be compatible with these requirements.

We will review their reports and meet with them to discuss their work. We will discuss the work plan for internal audit, and where they have identified specific material deficiencies in the control environment we consider adjusting our testing so that the audit risk is covered by our work.

Using these discussions to inform our risk assessment, we can work together with internal audit to develop an approach that avoids inefficiencies and overlaps, therefore avoiding any unnecessary duplication of audit requirements on the Council's staff.

Approach to controls testing

Our risk assessment procedures will include obtaining an understanding of controls considered to be 'relevant to the audit'. This involves evaluating the design of the controls and determining whether they have been implemented ("D & I").

The results of our work in obtaining an understanding of controls and any subsequent testing of the operational effectiveness of controls will be collated and the impact on the extent of substantive audit testing required will be considered.

Promoting high quality reporting to stakeholders

We view the audit role as going beyond reactively checking compliance with requirements: we seek to provide advice on evolving good practice to promote high quality reporting.

We recommend the Council complete the Code checklist during drafting of their financial statements.

We would welcome early discussion on the planned format of the financial statements, and whether there is scope for simplifying or streamlining disclosures (including consideration of the recent CIPFA publication on streamlining local government accounts), as well as the opportunity to review a skeleton set of financial statements and an early draft of the annual report ahead of the typical reporting timetable to feedback any comments to management.

Continuous communication and reporting

Planned timing of the audit

As the audit plan is executed throughout the year, the results will be analysed continuously and conclusions (preliminary and otherwise) will be drawn. The following sets out the expected timing of our reporting to and communication with you.

Planning	Interim	Year end fieldwork	Reporting activities
Planning meetings to inform risk assessment; and agree on key judgemental accounting issues. Update our understanding of key business cycles and changes to financial reporting. Review of key Council documents including Cabinet, Council and Audit Committee minutes.	Document design and implementation of key controls and update understanding of key business cycles. Substantive testing of limited areas including fixed asset additions, expenditure, payroll, certain areas of income. Update on value for money responsibilities. Scoping of components for the group audit.	Substantive testing of all areas. Finalisation of work in support of value for money responsibilities. Detailed review of annual accounts and report, including Annual Governance Statement. Review of final internal audit reports and opinion. Completion of testing on significant audit risks.	Year-end closing meetings. Reporting of significant control deficiencies. Signing audit reports in respect of Financial Statements. Whole of Government Accounts reporting. Issuing Annual Audit Letter.
2019/20 Audit plan	Verbal update with Audit Committee	Final report to the Audit Committee	Any additional reporting as required
December 2019 – March 2020	**March-April 2020**	**June-July 2020**	**July-November 2020**

Ongoing communication and feedback

Materiality

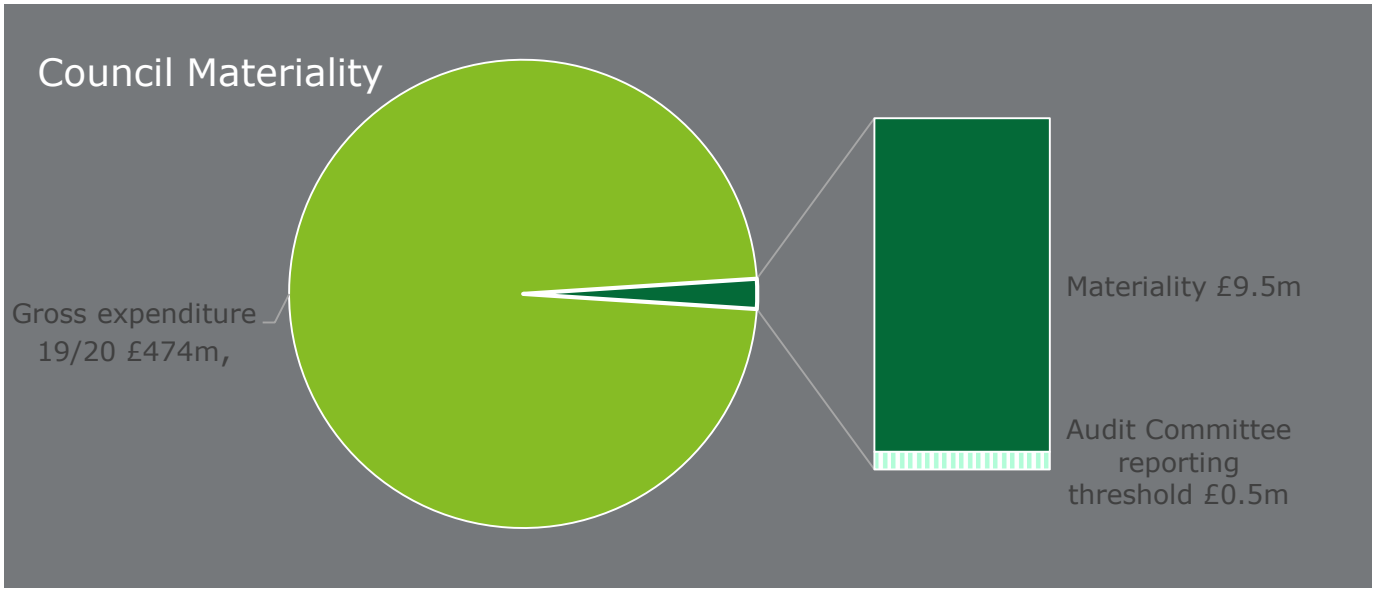
Our approach to materiality

Basis of our materiality benchmark

- The audit partner has determined the preliminary materiality for the Group as £10.1m (2018/19 £10.1m) and the Council only materiality as £9.5m (2018/19 £9.4m), based on professional judgement, the requirement of auditing standards and the financial measures most relevant to users of the financial statements. We will communicate the other component materialities to the committee once we have completed our group assessment.
- We have used 2% of gross expenditure based on the 2019/20 M7 forecast outturn reports as the benchmark for determining our preliminary materiality.
- We will re-visit the determined materiality based on the draft reported year end position.

Reporting to those charged with governance

- We will report to you all misstatements found in excess of £0.5m (2018/19 £0.5m).
- We will report to you misstatements below this threshold if we consider them to be material by nature.



Although materiality is the judgement of the audit partner, the Audit Committee must satisfy themselves that the level of materiality chosen is appropriate for the scope of the audit.

Significant risks

Our risk assessment process

We consider a number of factors when deciding on the significant audit risks. These factors include:

- the significant risks and uncertainties previously reported in the annual report and financial statements;
- the IAS 1 critical accounting estimates previously reported in the annual report and financial statements;
- the disclosures made by the Audit Committee in their previous Audit Committee report;
- our assessment of materiality; and
- the changes that have occurred in the business and the environment it operates in since the last annual report and financial statements.

Deloitte view

Management must carefully consider the principal risks, uncertainties and accounting estimates of the Council.

The next page summarises the significant risks that we will focus on during our audit.

All the risks mentioned in the prior year Audit Committee report are included as significant risks in this year's audit plan.

Principal risk and uncertainties

- Achieving further savings
- Brexit
- Capacity and resilience
- Increasing pressure on Children's services
- Social care funding

IAS 1 Critical accounting estimates

- Future levels of funding
- Property valuations
- Recognition of PPE in relation to Academies
- Pension liabilities
- PFI scheme accounting
- Provisions and contingencies
- Fair Value measurements

NAO – Auditor Guidance Note 06

The National Audit Office identified going concern, IFRS 16 Leases, transitional protection for certain pension scheme members, Guaranteed Minimum Pensions Equalisation, Dedicated Schools Grant – negative reserve and Pension guarantees to other entities as key issues in their Local Government Audit Planning guidance issued January 2020.

We reviewed the approach being taken by the Council in response to these in the prior year audit and will refresh our understanding for the current year.

IFRS 16 is mandatory for periods on or after 1 April 2020 and will be a key issue in the 2020/21 accounts. The Council will need to disclose the expected impact in the 2019/20 accounts.

We do not believe any of these matters represent a significant audit risk but we will carefully review the approach being taken by the Council to address these issues.

Changes in your business and environment

- Ofsted inspection on Children's social care services (November-December 2018) and subsequent management actions to address concerns raised.
- Acquisition of Houndshill shopping centre.
- Establishment of two new subsidiary companies

Significant risks

Significant risk dashboard

Risk	Material	Fraud risk	Planned approach to controls	Level of management judgement	Management paper expected	Slide no.
Completeness of accrued expenditure	✓	✓	D+I	⚠	✗	13
Property Valuations	✓	✗	D+I	⚠	✓	14
Pension Liabilities	✓	✗	D+I	⚠	✓	15
Management Override of Controls	✓	✓	D+I	⚠	✗	16

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

- Ofsted findings
- Financial sustainability

See pages 18-19.

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

⚠ Low level of management judgement ⚠ Moderate level of management judgement ⚠ High level of management judgement

Significant risks

Risk 1 – Completeness 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 of expenditure (as well as management override of controls as detailed on page 16). In the current year we have identified the risk as relating specifically to year end accruals. There is an inherent fraud risk associated with the under recording of expenditure in order for a Council to report a more favourable year-end position. For Blackpool Council there is therefore a specific risk that it may materially misstate its expenditure through the understatement of accruals in an attempt to report a more favourable year end position.
Our response	Our work in this area will include the following: • We will update our understanding and test the design and implementation of the key controls in place in relation to recording completeness of accruals; • We will perform focused testing in relation to the completeness of accruals through testing of post-year end unprocessed invoices and payments made.

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, offset by depreciation of £11.6m and revaluation movements of £8.6m as a result of the Council undertaking a valuation exercise during 2018/19. The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Council has adopted a rolling revaluation model which sees all land and buildings revalued over a four year cycle. As a result of this, however, individual assets may not be revalued for three years and any changes to the factors used in the valuation process could materially affect the value of the Council's assets as at year end. There is therefore a risk that the value of property assets materially differ from the year end fair value, particularly given that valuations are inherently judgemental and include a number of assumptions.
Our response	Our work in this area will include the following: • We will test the design and implementation of key controls in place around the valuation of property; • We will review any revaluations performed in the year, assessing whether they have been performed in a reasonable manner, on a timely basis, by suitably qualified individuals and using appropriate inputs; • We will review the approach used by the Council to assess the risk that assets not subject to revaluation are materially misstated; • We will use 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 will test a sample of revalued assets and re-perform the calculation assessing whether the movement has been recorded through the correct line of the accounts.

Significant risks

Risk 3 – Pension Liabilities

Risk identified	The net pension liability is a material element of the Council's balance sheet. The valuation of the Scheme relies on a number of assumptions, including actuarial assumptions, and actuarial methodology which results in the Council's overall valuation. Furthermore there are financial and demographic assumptions used in the calculation of the Council's valuation – e.g. the discount rate, inflation rates, mortality rates. These assumptions should also reflect the profile of the Council's employees, and should be based on appropriate data. 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. In addition in the current year the Council has entering into an arrangement with Blackpool Transport Services in relation to its pension scheme, which will also impact on the pension liability recognised in the financial statements.
Our response	Our work in this area will include the following: • We will obtain an understanding and test the design and implementation of the key controls in place in relation to review of the assumptions made by the Council and over information sent to the Scheme actuary; • We will evaluate the competency, objectivity and independence of the actuarial specialist; • We will review the methodology and appropriateness of the assumptions used in the valuation, utilising a Deloitte Actuary to provide specialist assesment of the variables used; and • We will review the pension related disclosures in the financial accounts.

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 of accrued 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 plan to perform the following audit procedures that directly address this risk: • We will test the design and implementation of key controls in place around journal entries and key management estimates; • We will risk assess journals and select items for detailed testing. The journal entries will be selected using computer-assisted profiling based on characteristics which we consider to be of increased interest; • We will review accounting estimates on both an individual and cumulative level for biases that could result in material misstatements due to fraud; and, • We will obtain 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 entity and its environment.

Value for Money

Risk assessment areas of focus

We are required to provide a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The Code and supporting auditor guidance note require us to perform a risk assessment to identify any risks that have the potential to cause us to reach an inappropriate conclusion on the audited body's arrangements. We are required to carry out further work where we identify a significant risk – if we do not identify any significant risks, there is no requirement to carry out further work.

Our risk assessment procedures include:

- Reading the annual governance statement;
- Considering local and sector developments and how they impact on the Council;
- Meeting with senior officers;
- Reviewing reports issued by internal audit;
- Reviewing other documentation of the Council including budget setting reports, financial and operational performance monitoring reports; and
- Reviewing reports issued by regulators.

Our risk assessment to determine whether there are any significant risks is at an early stage. We expect to carry out the majority of our risk assessment procedures in March and April.

We will then perform update procedures in June, in particular to update for the findings of internal audit work completed in the latter part of the year, outturn performance against financial and operational metrics and the outcome of any findings from the work of regulators.

We qualified the audit report in 2018/19 in relation to the Council's Ofsted rating on Children's Services which graded the Council 'inadequate'.

We regard this qualification as a significant risk area and will undertake work to conclude whether or not the matters giving rise to the previous year's qualification are also relevant to the current year.

We identified a VfM risk around financial sustainability and delivery of savings in 2018/19. Our opinion was not qualified in respect of this matter in 2018/19. Additionally we will consider the acquisition of Houndshill Shopping Centre as part of our risk assessment given the size of the acquisition (£47.6m purchase price). As part of this we will consider the adequacy of the due diligence process and may involve a specialist in our review of this area.

We have set out further information on this risk and our planned response on the following pages.

Significant risks

VfM Risk 1 – 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 wasn't 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. A commissioner has been appointed following the inspection to oversee the process and ensure improvement. We understand that, Ofsted undertook a monitoring visit in December 2019, they commented that the local authority has worked closely with a range of partners and there has been significant financial investment in the last 12 months but recruitment continues to be an issue. There are positive developments but they have not been fully embedded yet. As a result we consider there to still be a significant VfM risk in relation to Children's Services for 2019/20 around the delivery of the improvements required as a result of the Ofsted report. As not all improvements made will have been in place for the whole year under review there is a risk that an exception may still be required in our VfM conclusion.
Our response	Our work in this area will involve: • Review of any subsequent correspondence with Ofsted; • Review of the Commissioners reports; • Consideration of the findings and conclusions made in the Ofsted report, including review of the Council's progress to date in delivering actions to address the findings; and • Review of management progress in developing an action plan and the arrangements put in place by the Council to deliver improvement.

Significant risks

VfM Risk 2 – Financial Sustainability

Risk identified	The Council's budget for 2019/20 was approved at the Council meeting on 27 February 2019, setting a savings target of £9m. As at the end of October, the Council is forecasting to use £7.6m from reserves, mainly driven by the increased levels of demand in Children's Services. The need for savings continues to have a significant impact on the Council's financial sustainability. The Council, like most of local government, faces significant challenges over the short and medium term due to the ongoing cuts in funding and increased demand for services.
Our response	As part of our risk assessment, we will consider information from a combination of sources, including: • Discussions with management; • Review of the Council's Annual Report; • Review of 2019/20 savings and 2020/21 budget; • Consideration of issues identified through our other audit and assurance work; • Consideration of the Council's operational performance; and • Review of correspondence with any regulators received in year that is likely to result in unanticipated expenditure.

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 establish our respective responsibilities in relation to the financial statements audit, to agree our audit plan and to take the opportunity to ask you questions at the planning stage of our audit. Our audit plan, includes our consideration of key audit judgements and our planned scope.

What we don't report

As you will be aware, our audit is 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, the views on internal controls and business risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

Use of this report

This report has been prepared for the Audit Committee on behalf of 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.

Other relevant communications

We will update you if there are any significant changes to the audit plan.

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

Deloitte LLP

Deloitte LLP

Leeds | 3 March 2020

Appendices

Fraud responsibilities and representations

Responsibilities explained

Your 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.

Our responsibilities:

- We are required to obtain representations from your management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- 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.
- As set out in the significant risks section of this document, we have identified the risk of fraud in expenditure and management override of controls as key audit risks for your organisation.

Fraud Characteristics:

- Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
- Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

We will request the following to be stated in the representation letter signed on behalf of the Council:

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We are not aware of any fraud or suspected fraud / We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity or group and involves:
  - (i) management;
  - (ii) employees who have significant roles in internal control; or
  - (iii) others where the fraud could have a material effect on the financial statements.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Fraud responsibilities and representations

Inquiries

We will make the following inquiries regarding fraud:

Management:

- Management's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments.
- Management's process for identifying and responding to the risks of fraud in the entity.
- Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity.
- Management's communication, if any, to employees regarding its views on business practices and ethical behaviour.
- Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity.
- We plan to involve management from outside the finance function in our inquiries.

Internal audit

- Whether internal audit has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud.

Those charged with governance

- How those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks.
- Whether those charged with governance have knowledge of any actual, suspected or alleged fraud affecting the entity.
- The views of those charged with governance on the most significant fraud risk factors affecting the entity.

Independence and fees

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

Independence confirmation	We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Council and will reconfirm our independence and objectivity to the Audit Committee for the year ending 31 March 2019 in our final report to the Audit Committee.
Fees	There are no non-audit fees for 2019/20 outside of those noted in the table on the following page.
Non-audit services	We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	We have not other relationships with the Council, its directors, senior managers and affiliates, and have not supplied any services to other known connected parties.

Independence and fees

The professional fees expected to be charged by Deloitte in the period from 1 April 2019 to 31 March 2020 are as follows:

	Current year £	Prior year £
Financial statement audit including Whole of Government and procedures in respect of Value for Money assessment [1]*	84,818	84,818
Agree variation relating to HRA review	-	15,000
Additional audit fees – 2018/19 financial statements	-	18,000
Additional fee for Houndshill acquisition [2]*	TBC	-
Additional fee for IFRS 16 [3]*	TBC	-
Additional fee for changes in the current year [4]*	TBC	-
Total audit	**84,818**	**117,818**
Audit related assurance services – Housing Benefit	10,250	10,250
Audit related assurance services – Teachers pension return	4,000	4,000
Audit related assurance services – Pooling of Housing Capital Receipts	4,000	4,000
Total assurance services	**18,250**	**18,250**
Total fees	**103,068**	**136,068**

[1] The fee reflected here is the scale fee. In line with recent PSAA correspondence that scale fees should be negotiated by individual s151 officers, we will be looking to discuss with the Authority the current level of fee.

[2] Fee for additional audit work over acquisition of Houndshill to be agreed and the level will be dependent on whether this is identified as a significant audit risk area with respect to our value for money conclusion.

[3] Fee for audit of the disclosures in 2019/20 accounts regarding implementation of IFRS 16.

[4] Fee for any additional work required in relation to the changes to the Minimum Revenue Provision policy, the Blackpool Transport Services pension fund pooling arrangement, and the two new subsidiaries in relation to the group accounts.

* All additional fees are subject to agreement with PSAA.

Our approach to quality

AQR team report and findings

We maintain a relentless focus on quality and our quality control procedures and continue to invest in and enhance our Audit Quality Monitoring and Measuring programme. In July 2019 the Financial Reporting Council ("FRC") issued individual reports on each of the seven largest firms, including Deloitte, on Audit Quality Inspections providing a summary of the findings of its Audit Quality Review ("AQR") team for the 2018/19 cycle of reviews.

We greatly value the FRC reviews of our audit engagements and firm wide quality control systems, a key aspect of evaluating our audit quality. We have further transformed our internal review processes including a new focus for reviewing in progress audits, developing our Audit Quality Indicators ('AQI') which are monitored and reported to the firm's executive, and on enhanced remediation procedures.

Whilst we are pleased that overall our quality record, as measured by external inspections, has improved from 76% to 84%, we remain committed to continuous improvement and achieving as a minimum the 90% benchmark across all engagements. We are however, extremely disappointed one engagement received a rating of significant improvements required during the period. This is viewed very seriously within Deloitte and we have worked with the AQR to agree a comprehensive set of swift and significant firm wide actions. We are also pleased to see the impact of our previous actions on impairment, group audits and contingent liability disclosures reflected in the audits under review and there being limited or no findings in those areas. These continue to be a focus in our training, internal coaching and internal review programmes.

We invest continually in our firm wide processes and controls, which we seek to develop globally, to underpin consistency in delivering high quality audits whilst ensuring engagement teams exercise professional scepticism through robust challenge.

All the AQR public reports are available on its website. https://www.frc.org.uk/auditors/audit-quality-review/audit-firm-specific-reports

The AQR's 2018/19 Audit Quality Inspection Report on Deloitte LLP

"We assessed 84% of the firm's audits that we reviewed as requiring no more than limited improvements, compared with 76% in 2017/18. Of the FTSE 350 audits we reviewed this year, we assessed 75% as achieving this standard compared with 79% in 2017/18. We note that our inspection results show only modest improvements in audit quality."

"We had no significant findings arising from our firm-wide work on internal quality monitoring, engagement quality control reviews and independence and ethics."

"Our key individual review findings related principally to the need to:

- Exercise greater professional scepticism in the audit of potential prior year adjustments and related disclosures in the annual report and accounts.
- Strengthen the extent of challenge of key estimates and assumptions in key areas of judgement, including asset valuations and impairment testing.
- Improve the consistency of the quality of the firm's audit of revenue.
- Achieve greater consistency in the audit of provisions and liabilities."

"The firm has enhanced its policies and procedures during the year in a number of areas, including the following:

- Through the firm's global audit quality programmes, there has been an increased focus on consistency of audit work across the audit practice. For certain account balances, standardised approaches have been adopted, further use has been made of centres of excellence and delivery centres and new technologies embedded into the audit process to support and enable risk assessments, analytical procedures and project management activities.
- Further methodology updates and additional guidance and training for the audit practice covering group audits, accounting estimates, financial services (including the adoption of IFRS 9) provisions and contingencies and the evidencing of quality control procedures (including EQCR) on individual audits.
- Increased support for audit teams throughout the audit cycle including coaching programmes for teams and greater use of diagnostics to monitor progress.
- Continued focus on the approach to the testing of internal controls. The firm provided additional training and support to audit teams adopting a controls-based audit approach, increased focus on reporting to Audit Committees on internal controls and on the wording of auditor's reports."

Deloitte.