Deloitte ISA 260 2019/20 - Management Response

APPENDIX 6(a)

Area	Observation	Management Response	Priority
Preparation for IFRS 16 (initially raised 2018/19)	The implementation of IFRS 16, Leases, has been delayed again until 2022/23 due to Covid-19 but it 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 2021/22, and to calculate an adjusted opening balance sheet position for audit following the 31 March 2021 audit. We recommend early consideration following the impact analysis of actions required to embed IFRS 16 accounting in the Council's underlying accounting systems.	Work first commenced on this in 2019. This work will be reviewed and updated with a plan put in place between Finance, Assets and Estates and Legal Services to ensure all leases are considered and treated appropriately.	Medium
Property, plant and equipment additions	As part of the year end process, management focus on ensuring that all additions over £10k are appropriately recorded, this means that some additions below this level may be missed. As part of the year end close down a check should be done on the total aggregate amount of invoices below the threshold that have been accounted for post year end to ensure that there is not potential for a material issue.	A process will be brought into future year-end timetables to ensure that all additions are captured. A report will be run to ensure that the invoices have been accounted for correctly at the year-end.	Low
Long term debtor recoverability	There has been a lack of detailed assessments of the recoverability of the loans that have been provided to subsidiaries and private companies following significant changes in the economic environment i.e. the Covid-19 pandemic. This means that there is a risk that recoverability issues will not be identified in a timely manner and any reliance on property valuations may not be accurate given the impacts of Covid-19 on the relevant businesses and the secured assets.	Monthly Business Loan Panel meetings are held. The performance of all loans are monitored at these meetings and any issues with irrecoverability would be identified here. In addition, Finance staff review the loan repayments on a daily basis and would highlight and investigate if any repayments were missed.	Medium
Long term debtor – signed loan agreements	We have identified that the loan agreements between the Council and its subsidiary companies have not been signed. Both the Council and the subsidiaries are aware of the terms of the loan agreement, however in order to avoid potential legal challenge it is recommended that the Council ensure all agreements are signed going forward.	All agreements will be signed. Accountancy staff to ensure all future loans have signed agreements in place.	Medium

Area	Observation	Management Response	Priority
IT findings	A number of findings have been raised as part of our review of the IT environment: • Access permissions for new users on the CEDAR system that determine folders and data that the new users can access are based on 'same as user' approach. This involves IT team copying the permissions from an existing user (an instructed by Line Managers) rather than utilising specific role based profiles. There is also a lack of clear, documented information available to line managers setting out which permissions each user has. Without understanding fully what access the user being copied has, and what this access can do, colleagues access may be replicated inappropriately leading to potentially inappropriate /excessive rights that are not necessary to the users role.	New users and roles is an ongoing process and will be reviewed as part of the implementation of the new financial system. The Council is a diverse organisation with an incredible number of roles. Implementing a role based access control at an individual service level across the entire Active Directory would create an incredible number of roles and wouldn't necessarily work any better than the same as user model due the to fluidity and frequency with which the organisation changes and roles get redefined. From a risk management perspective the Active Directory is only being used to determine which software applications are displayed and to which shared drive the user is given access to(there is no single sign on across the vast majority of systems). If a user was inadvertently assigned to the wrong software application they still wouldn't have access because all of the Council main systems still require a further username and password to be used which is governed by local system administrators. In terms of the risk that a user may gain access to files on the wrong shared drive this risk is currently being addressed by the migration of shared drives to SharePoint and Microsoft Teams where local systems administrators within individual teams across the council will have much greater control to determine local access rights and what files a user can access.	Medium
	• It has been noted that the following parameters are missing from CEDAR and Selima: lockout threshold and duration. Password expiry has also been set at 0 for Windows AD, which in turn is configured in the Orchard system due to the integration of credentials. With these parameters being inactive, it increases the risk of inappropriate or unauthorised access to the systems and amendments which could impact the financial and legal reputation of the Council.	The systems do lock out if a password is input incorrectly after 3 attempts. The use of 16 digit passwords with no expiry have been brought into Cedar in line with the Council's ICT policy. The Council follows the NCSC guidance on 16 character password complexity. Expiring passwords routinely is old thinking. We only expire passwords if we have reason to believe the user account may have been compromised. The NCSC guidance is not to routinely expire passwords. Please find a link in the cell below to a 2016 NCSC blog post in which the rationale for this is explained. https://www.ncsc.gov.uk/blog-post/problems-forcing-regular-password-expiry#:~:text=The%20NCSC%20now%20recommend%20organisations%20do%20not%20force,new%20password%2C%20if%20they%20have%20the%20old%20one.	
BTS pension transfer	The Council should put in place formal documentation which sets out the terms and conditions on which it has undertaken the transaction with BTS so that it is clear what the Council's potential liabilities are in relation to the pension balances.	Formal decision notices were in place and had been agreed at the Blackpool Transport Board and the Council's executive. However these will be put into a separate document.	Medium
Subsidiary valuations	The valuation approach adopted by the Council in valuing the investment it holds in its subsidiaries should be reviewed so that they are undertaken on an appropriate basis.	These are reviewed every year by the Council's independent valuers Smith Craven. Any feedback from Deloitte on the company valuations is forwarded to Smith Craven.	Medium

Area	Observation	Management Response	Priority
Review of nil NBV items	Council should perform a review of the nil NBV items still held within the 'VPE' category in the FAR to confirm those that are still held by the council and those that should be removed from the fixed asset register. As part of this process if there is a significant number of assets still in use with a nil NBV the UELs for those types of assets should be reviewed to ensure that they reflect the appropriate expected useful economic life.	A review is currently being undertaken to review the VPE and whether or not the assets are still in use. Useful Economic Lives (UELs) will be reviewed for assets in use with a nil Net Book Value (NBV).	Medium
Review of financial statements	A thorough review of the financial statements and the accounting treatment for all significant transactions should be undertaken by senior members of the finance team to make sure that any issues are identified early in the process. A review should be undertaken to ensure that the finance team has sufficient capacity to be able to perform these additional processes.	A review of the financial statements takes place each year. However an additional review has been included in the 2020/21 year end timetable to ensure transactions are accounted for correctly. Key staff in the year-end process attend relevant training sessions held by CIPFA each year regarding changes in accounting treatment and financial statements. This is in addition to reading through the CIPFA guidance each year including the CIPFA year-end bulletin issued in March/April. All finance staff involved in year-end are issued with annual guidance around the key areas in the accounts such as provisions, reserves, debtors and creditors. Staff are kept up to date of any changes throughout the year-end process with weekly year-end bulletins.	High
Recording of previous impairments to PPE	Management should update the fixed asset register to ensure that it includes the required information in relation to impairments or downward revaluations that have been charged in prior years to the CIES, so that an appropriate amount of any subsequent upward revaluations can be used to reverse the previously charged impairments.	Exercise was undertaken as part of the 2019/20 year-end audit which now has a record of impairments and revaluations by asset charged to CIES in previous years. This analysis will continue to be used for future years	Medium
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, top reflect the requirements of IFRS 9 and 15, and the process to be followed in assessing any new and unusual transactions.	This is done on an annual basis to ensure no impact on the accounts. Formal arrangements to ensure this is done will be brought into the year-end timetable. Monthly budget monitoring would also highlight any impact on the Council.	Medium
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.	Since the inadequate judgment in December 2018 Children's Services has been subject to significant scrutiny from both the Department for Education and Ofsted. On the 10th of March the Minister for Children and Families accepted the DfE appointed commissioner's recommendation that Blackpool Council Children's service had demonstrated significant improvement and should therefore continue to manage the service, and that there was no longer a requirement for Commissioner oversight. There have been 3 visits undertaken by Ofsted, the subsequent letters demonstrate improvement. In terms of internal scrutiny, there is a Social Work improvement plan, updates are presented to a Getting to Good Board which meets bi-monthly and is independently chaired, but is attended by the Chief Executive.	High

Area	Observation	Management Response	Priority
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.	Inevitably financial sustainability is a major risk to the local government sector as a result of i) a decade of reductions in central government funding, ii) demographic pressures in the social care services, iii) the consequences of Covid and iv) the underwriting of wholly-owned companies. This has already manifested in the issuing of s.114 notices elsewhere and Government having to intervene to allow capitalisation directives in 9 local authorities to date to enable budgets to be balanced along with the provision of additional SEND grants to 5 other local authorities. Blackpool Council ticks a number of these boxes with cumulative budget savings 2011/12-20/21 of £166m, an elderly population, an outlier in terms of looked after children numbers per population and 8 wholly-owned companies. It is correct that its budget savings plans have contained an element of non-recurrent measures – 2019/20 £6.1m of £9.0m, 2020/21 £2.4m of £19.65m and 2021/22 £6.1m of £20.3m – though this is in part a consequence of successive 1-year Government Settlements, postponements of the Fair Funding Review, Business Rates Review, Business Rates Revaluation, Business Rates Reset, New Homes Bonus review and Adult Social Care funding review and the resultant uncertainty of not being able to plan ahead more robustly. In mitigation: 1. Blackpool Council does have a track record of delivering its annual budget savings plans 2. 2021/22 is the final year of the current Medium Term Financial Sustainability Strategy and this is in the process of being refreshed for the next 6-year period 3. The current medium-term financial plan (MTFP) is underpinned by detailed MTFPs for Adult Services and Children's Social Care, which represent 79% of the overall General Fund budget 4. In 2020/21 Executive and Scrutiny received detailed and timely financial monitoring reports for months 02-10 which included consolidated forecasts for the 8 wholly-owned companies also, besides which the Corporate Leadership Team received summary reports for months 0,01 and 11, enabling swift management action should budget savings plans have gone awry 5. An approved facility of up to £24m of cash flow loans is available to the Council's wholly-owned companies to support their sustainability subject to robust 5-year financial recovery plans being in place 6. Blackpool Council maintains a relatively healthy financial standing with forecast year-end working balances and earmarked reserves of £11.6m and £22.7m respectively and a strong balance sheet of £244m 7. A positive CIPFA Financial Resilience Index 8. A highly-qualified Accountancy function.	High

Area	Observation	Management Response	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 assets 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.	SLA will be in place for 2020/21 year-end and future years. Assets and Estates have been advised to ensure they provide full valuation details and methodology. This is implemented for 2020/21 year-end. Only a couple of assets were affected by this and this has now been resolved. This was done for 2019/20 year-end. These details have been added to the valuation worksheets and will be used for the 2020/21 valuations. Assets and Estates have been made aware of this and MEA depreciated replacement cost will be used for 2020/21 year-end.	Medium