APPENDIX 5(b)

Deloitte.

Blackpool Council

Blackpool Council

Audit Update Report to the Audit Committee on the 2020/21 audit

Issued on 3 November 2021 for the meeting on 11 November 2021

Deloitte Confidential: Government and Public Services

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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.

I have pleasure in presenting an update to the Audit Committee on the progress of our 2020/21 audit.
I would like to draw your attention to the key messages within this paper:

Status of our Statement of Accounts audit	Our financial statements audit is progressing, however we do still have a number of procedures to complete before we are able to conclude our audit. We have set out on page 25 the principal outstanding areas that we are required to work through in order to complete our audit. We are working constructively with the Council to complete our work and we will provide the Committee with a verbal update on our progress at the meeting on 11 November 2021.
Status of our Value for Money audit	Our Value for Money work is ongoing, and will be reported in our Auditor's Annual Report, within three months of the signing of the audit opinion as specified under the National Audit Office Auditor Guidance Note 3. In our audit planning report, which was presented to the Committee on 30 September 2021, we highlighted three risks of significant weakness in the Council's arrangements. These risks covered financial sustainability, the 2018 Ofsted findings in relation to Children's services and the Council's commercial activities. Our work is still ongoing in relation to financial sustainability and the Council's commercial activities. However, based on the work performed we have concluded that there is a significant weakness in relation to the 2018/19 Ofsted findings. We have included more detail in relation to this weakness on page 15. It should be noted that our financial statement audit opinion will refer to this significant weakness in arrangements.

Introduction

The key messages in this report (continued)

Status of our testing	Our audit work is still ongoing however, as part of the procedures we have so far performed, we have identified a number of adjustments to the financial statements. These are set out in more detail on pages 22, 23 and 24.
Narrative Report and Annual Governance Statement	• We are in the process of reviewing the Council's Narrative Report and Annual Governance Statement, including the completion of our quality control procedures, to consider whether it is misleading or inconsistent with other information known to us from our audit work. • We have so far suggested a number of minor changes to management for consideration, although further changes may be requested as we complete our procedures. We will report back to the Audit Committee any further observations.
Duties as public auditor	• We did not receive any objections from local electors this year. • We have not identified to date any matters that would require us to issue a public interest report. • To date we have not had to exercise any other audit powers under the Local Audit and Accountability Act 2014.
Whole of Government Accounts	• The Council is a sampled component for WGA reporting. • We are required to perform testing on the Council's WGA submission, checking its consistency to the audited financial statements and reporting our findings to the National Audit Office, together with our audit opinion and key issues from our audit. As at the time of writing this report, the National Audit Office have not yet issued the WGA reporting guidance for 2020/21 and as a result we are unable to report when these procedures will be completed.
Internal Audit interaction	The audit team has met with the Head of Internal Audit, and we have arranged regular catch up meetings throughout the year. We are in the process of reviewing their findings. It should however be noted that we have not placed any reliance on the work of Internal Audit during the year.

Nicola Wright
Audit Partner

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

We use this symbol to highlight areas of our audit where the Audit Committee needs to focus attention.

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 and highlight throughout the document where there is key information which helps the Audit Committee in fulfilling its remit.

Oversight of external audit

- At the start of each annual audit cycle, ensure that the scope of the external audit is appropriate.
- Make recommendations as to the auditor appointment and implement a policy on the engagement of the external auditor to supply non-audit services.

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 strategy and, provide advice in respect of the fair, balanced and understandable statement.

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.

Whistle-blowing and fraud

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

Our audit explained

We tailor our audit to your organisation and your strategy

Identify changes in your business and environment

In our planning report, we identified the key changes in your operations and articulated how these impacted our audit approach.

Scoping

Our planning report set out the scoping of our audit in line with the Code of Audit Practice. No changes have been made to the approach set out in our audit plan.

Other findings

As well as our conclusions on the significant risks and our Value for Money work, we are required to report to you our observations on the internal control environment as well as any other findings from the audit.

Determine materiality

When planning our audit we set our materiality at £11.2m (Council only £10.5m) based on total gross expenditure per the draft financial statements for 2020/21. There has been no change to our materiality calculation since the presentation of our planning report to the Committee. We will also report any misstatements above £0.5m to the Committee.

Significant risk assessment

In our planning report, we explained our risk assessment process and detailed the significant risks we have identified on this engagement.

Conclude on significant risk areas

Our work in relation to the significant audit risks is still ongoing. However, we have highlighted the work we have performed so far in this report. When we have completed our procedures we will report back to the Audit Committee with our findings.

Our audit report

Our audit work is still ongoing and we will provide an update to the Audit Committee on 11 November 2021 in relation to our audit report.

Significant risks

Risk of fraud in revenue recognition

Risk identified	Under ISA 240 (UK), there is a presumed risk that revenue may be misstated due to improper revenue recognition. Local authorities have a statutory duty to balance their annual budget and are operating in a financially challenged environment with reducing levels of government funding and increasing demand for services. Achievement of budget is critical to minimising the impact and usage of the Council's usable reserves and provides a basis for the following year's budget. Any deficit outturn against the budget is therefore not a desirable outcome for the Council and management, and therefore this desire to achieve budget increases the risk that the financial statements may be materially misstated. Our judgement is that the significant risk at the Council relates to the recognition of grants with terms and conditions attached, including the new grants received in year relating to Covid-19 where terms and conditions may be less clear and there is no historical basis for the accounting treatment. There is a risk that the Council will recognise the income before the terms and conditions have been met. There are also a number of grants relating to Covid-19, such as the business rates relief, where management need to determine if they are acting in the capacity of an "agent" or "principal".
Deloitte response and challenge	We are in the process of completing the following procedures: • Assessing the design and implementation of the controls in relation to the accounting treatment of grant income, including Covid-19 grants; • Reviewing management's assessment of the accounting treatment of each significant grant claim, with a particular emphasis on Covid-19 related grants, and challenging the appropriateness of the approach adopted; and • Testing a sample of grants with terms and conditions attached, including the new Covid-19 related grants, to ensure that where management judgements have been made relating to the recognition of the income, all terms and conditions have been achieved.
Status	At the time of writing this report, we have no matters to report to the Audit Committee in relation to this risk. However, we have not finalised the procedures set out above and will highlight any issues to the Audit Committee in our final ISA 260 report.

Significant risks

Completeness of accrued expenditure

Risk identified	Under ISA 240 (UK), there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. 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 the Council to report a more favourable year-end position. For Blackpool Council, there is therefore an inherent risk that it may materially misstate its expenditure through the understatement of accruals in an attempt to report a more favourable year end position.
Deloitte response and challenge	We are in the process of completing the following procedures: • Assessing the design and implementation of the key controls in place in relation to the recording of accruals; • Testing a sample of accruals to supporting documentation to check whether they are valid liabilities, that the amount accrued is appropriately supported, and that the liability was incurred as at 31 March 2021; and • Testing a sample of post year end payments made, per the Council's bank statements, in order to ensure that the associated expenditure has been included in the correct period.
Status	At the time of writing this report, we are in the process of finalising our work in this area and as a result we are unable to conclude on this risk. From the testing so far performed, we have identified one error. This is an over-accrual of £5.7m in 2020/21 in relation to historic Housing Benefit overpayments. The accrual was made by the Council to reflect the impact of housing benefit overpayments on the subsidy the Council receives from the Department for Work and Pensions. However, the impact of the overpayments is already included elsewhere in the financial statements and as a result it is not necessary to include a separate accrual at the year end. Further detail in relation to this error can be viewed on pages 22 and 23.

Significant risks

Valuation of property assets

Risk identified	The value of land and buildings and investment properties represent significant balances in the Council's Statement of Accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgements in respect of key assumptions and apply estimation techniques to calculate the year-end balances recorded in the Balance Sheet. 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. It should be noted that investment properties are also regularly revalued. As a result of the Covid-19 pandemic, there has been significant market movements during the year which will impact on the valuations of the investment properties held by the Council. This increases the level of judgment required in valuing the assets.
Deloitte response and challenge	We are in the process of completing the following procedures: • Reviewing the design and implementation of the controls in place in relation to the valuation of property assets; • Considering the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work; • We have engaged our valuation specialists, Deloitte Real Estate, to review and challenge the appropriateness of the assumptions used in the valuation of the Council's property assets, including assessing the impact of Covid-19 on the valuation of the Council's property assets; • Testing a sample of key asset information used by the Council's valuers in performing their valuation, such as gross internal areas, back to supporting documentation; • Reviewing assets not subject to valuation in 2020/21 in order to confirm that the remaining asset base is not materially misstated; and • Reviewing the presentation of revaluation movements, and the disclosures included in the Statement of Accounts.
Status	At the time of writing this report, we have no matters to report to the Audit Committee in relation to this risk. However, our work in relation to this risk is still ongoing, and we are currently involved in discussions with the Council regarding specific valuations that could result in matters we need to report to the Audit Committee. We will highlight any further issues identified in our final ISA 260 report.

Significant risks

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 (recognition of grant income with terms and conditions attached, completeness of accrued expenditure 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 Statement of Accounts.

Deloitte response and challenge

We have considered the overall sensitivity of judgements made in the preparation of the Statement of Accounts, and note that:

- The Council delivered an underspend for 2020/21 per the Council’s outturn report; and
- Senior management’s remuneration is not tied to particular financial results.

We have considered these factors and other potential sensitivities in evaluating the judgements made in the preparation of the financial statements.

Our work in relation to management override of controls is ongoing, but the procedures we are performing are set out below:

Journals

- We are testing the design and implementation of controls in relation to the processing of journals and accounting estimates.
- We are making inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.
- We are using Spotlight data analytics tools to test a sample of journals, based upon identification of items of potential audit interest. Our analysis has covered all journals posted in the year.

Significant unusual transactions

- At the time of writing the report, we have not identified any material unusual transactions outside the normal course of business of the Council.

Significant risks

Management override of controls (continued)

Deloitte response and challenge (continued)	**Accounting estimates** • We are reviewing accounting estimates for bias that could result in material misstatements due to fraud. • We are performing testing on key accounting estimates as discussed on pages 7, 8 and 11.
Status	At the time of writing this report, our work in relation to this risk is still ongoing. However, we have not identified any issues that require reporting to the Audit Committee. We will provide the Audit Committee with a verbal update on our progress at the 11 November 2021 Audit Committee meeting.

Other areas of audit focus

Net Pension liability valuation

Risk identified	The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Lancashire County Pension Fund, which is part of the Local Government Pension Scheme. The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's Balance Sheet. Per the draft financial statements as at 31 March 2021, this totalled £322 million. As a result of this being an estimated balance there is a risk that inappropriate inputs and assumptions are used, which could result in the net pension liability valuation being materially misstated.
Deloitte response and challenge	We are in the process of completing the following procedures: • Agreeing the actuarial report for the Council produced by Mercers, the scheme actuary, to the Statement of Accounts pension disclosures; • Reviewing the disclosures made in the Statement of Accounts against the requirements of the Code; • We have liaised with the audit team of Lancashire County Pension Fund to obtain assurances over the information supplied to the actuary in relation to the Council; • Assessing the independence and expertise of the actuary supporting the basis of reliance upon their work; • Reviewing and challenging the assumptions made by Mercers; • Assessing the reasonableness of the Council's share of the total assets of the scheme by reference to the Pension Fund financial statements; and • Reviewing the accounting of the upfront pension contribution made by the Council to assess whether this is in line with the requirements of the CIPFA Code.
Conclusion	At the time of writing this report, we are in the process of finalising our work in this area and as a result we are unable to conclude on this risk. However, from the testing so far performed, we have identified that the upfront pension contribution made by the Council was not accurately reflected in the actuary's report. The Council therefore requested a revised actuary's report, which has resulted in the Council's net pension liability reducing to £299m. In addition, we have also identified that the upfront pension contribution was incorrectly accounted for in the draft Statement of Accounts. This is due to the upfront payment for years 2021/22 and 2022/23 being included in the pensions reserve rather than the net pension liability. Further detail in relation to this misstatement can be found on pages 22 and 23.

Other areas of audit focus

Investment valuations

Risk identified	The subsidiary entities are valued by an external valuer, based on a range of assumptions including the future expected performance of the individual entities. Due to the impact of Covid-19 on the economy, there is an increased risk that some of these investments may require impairment if the business plans have been impacted significantly.
Deloitte response and challenge	We are in the process of completing the following procedures: • Engaging our valuation specialists to assess the assumptions and methodology underpinning the valuations prepared by Smith Craven. This includes holding discussions with Smith Craven to further develop our understanding of the valuation approach; and • For a sample of the investments held by the Council, developing an independent valuation range to assess the reasonableness of the Council's current investment values.
Status	At the time of writing this report, we have no matters to report to the Audit Committee in relation to this risk. However, we have not completed the procedures set out above and will provide the Audit Committee with a verbal update on our progress at the 11 November 2021 Audit Committee meeting.

Other areas of audit focus

Long term debtor recoverability

Risk identified	At 31 March 2021, the Council had provided loans totalling £86m to a number of its subsidiaries and also some private companies. During the year, the Council offered a six month repayment holiday from 1 April 2020 to 30 September 2020 to all businesses with a loan from the Council. Due to the impact of Covid-19 on a wide range of companies within the economy, we believe there is a risk that some of these entities may not be able to repay the loans provided by the Council, and as a result, the value of the loans at 31 March 2021 may need to be impaired.
Deloitte response and challenge	We are in the process of completing the following procedures: • Obtaining loan agreements from the Council for a sample of loans, in order to allow us to review the terms and conditions included in the agreements, with a particular focus on any collateral that is included in the agreements; • Reviewing and assessing the current operational status of each company in our sample, including reviewing the latest set of audited financial statements for the company, in order to identify any potential risks to the recoverability of the loan provided by the Council; and • Obtaining and reviewing management's assessment of the recoverability of the loans.
Status	At the time of writing this report, we have no matters to report to the Audit Committee in relation to this risk. However, we have not completed the procedures set out above and will provide the Audit Committee with a verbal update on our progress at the 11 November 2021 Audit Committee meeting.

Value for money

Our work is ongoing and will be reported in our Auditor's Annual Report

Value for Money requirements

We are required to consider the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources. Under the revised requirements of the Code of Audit Practice 2020 and related Auditor Guidance Note 03 ('AGN03'), we are required to:

- Perform work to understand the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources against each of the three reporting criteria (financial sustainability, governance, and improving economy, efficiency and effectiveness);
- Undertake a risk assessment to identify whether there are any risks of significant weaknesses in arrangements. This was completed at the audit planning stage and we identified three risks of significant weakness in the Council's arrangements. These risks covered financial sustainability, the 2018/19 Ofsted findings in relation to Children's services and the Council's commercial activities;
- If any risks of significant weaknesses are identified, perform procedures to determine whether there is in fact a significant weakness in arrangements, and if so to make recommendations for improvement;
- Issue a narrative commentary in the Auditor's Annual Report, setting out the work undertaken in respect of the reporting criteria and our findings, including any explanation needed in respect of judgements or local context for findings. If significant weaknesses are identified, the weaknesses and recommendations will be included in the reporting, together with follow-up of previous recommendations and whether they have been implemented. Where relevant, we may include reporting on any other matters arising we consider relevant to Value for Money arrangements, which might include emerging risks or issues arising.

Status of our work and significant weaknesses

Our Value for Money work is ongoing, and will be reported in full in our Auditor's Annual Report, within three months of the date of our audit opinion as specified under the National Audit Office Auditor Guidance Note 3.

It should be noted that there is a requirement to include any known significant weaknesses in our audit report, if they are known at the date the audit report is issued.

As part of our procedures, we are aware that in 2018/19, the Council received an "Inadequate" rating from Ofsted. The monitoring reports produced by Ofsted, since the initial rating, have highlighted that progress has been made. However, as at 31 March 2021 the "inadequate" rating remained in place, with Ofsted highlighting that there are still a number of areas for improvement.

Therefore we have concluded that a significant weakness in the Council's arrangements in relation to 2018/19 Ofsted findings remains and as a result we are required to highlight this significant weakness is our audit opinion.

Our work in relation to the other significant risks of weakness is still ongoing and we will highlight any issues to the Audit Committee in our final ISA 260.

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 response	Priority
Exit package agreements	**Finding** – As part of our audit procedures, we have tested a sample of exit packages that are disclosed in note 40 of the Statement of Accounts. During our testing we identified that the Council does not retain a copy of the signed exit package agreement between the Council and the former employee. **Recommendation** – We recommend that the Council ensures that signed exit package agreements are retained.	TBC	
Valuation of Heritage Assets	**Finding** – The Council's Heritage Asset portfolio was most recently revalued by the Head of Heritage in 2018. The Council deemed that the revaluation by the Head of Heritage was appropriate as they have extensive experience of working with heritage assets. However, we would expect heritage asset revaluations to be performed by an external body who have appropriate qualifications in place, in order to allow them to provide the valuation. **Recommendation –** We recommend that the Council engage an external body to provide updated Heritage Asset revaluations in future years.	TBC	

The purpose of the audit was for us to express an opinion on the financial statements. The audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters being reported are limited to those deficiencies that we have identified during the audit and that we have concluded are of sufficient importance to merit being reported to you.

Low Priority

Medium Priority

High Priority

Other significant findings

Internal control and risk management (continued)

Area	Observation	Management response	Priority
IT findings – CEDAR: Mirroring access	**Finding** - Access for Starters are specified by mirroring an existing user's access privileges; this is an option provided in the new Starters form. This poses a risk that access which is not required may be mistakenly passed onto the new starter and therefore privilege creep could occur. In mitigation, the process is formalised with a specific form that needs to be filled in and sent to the IT team by the relevant line manager, therefore access is approved by an appropriate user. **Recommendation** – The Council should consider ending the process of mirroring access rights when adding a new starter to the system.	TBC	
IT findings – CEDAR, Capita and Orchard leavers access	**Finding** - For CEDAR, Capita and Orchard leavers, access is revoked on a monthly basis by the System Administration Teams once a leavers report is received from HR. The System Administration Teams then go through the list to check if that individual had access to the systems and that their access has been removed. The risk is therefore that an individual may have access to a system for up to a month before their access is withdrawn, as IT are not notified of the leaver until they receive the report from HR. **Recommendation –** The Council should consider introducing a process whereby line managers are required to inform the IT department of leavers in advance of their leaving date, so that access can be revoked on a more timely basis.	TBC	
IT findings – User access reviews	**Finding** - There are no periodic reviews of the appropriateness of user access rights for CEDAR, Orchard and Selima, thereby increasing the risk that management fail to detect where user access rights are in excess of expected access rights or where a user has access rights that override an effective segregation of duties. In turn, this increases the risk that users are able to create inappropriate transactions or inappropriately amend financial data within the application. **Recommendation –** The Council should implement a formal, proactive review of the appropriateness of user access rights for CEDAR, Orchard and Selima.	TBC	

Our audit report

The form and content of our report

Here we discuss how the results of the audit impact on our audit report. An overview of our financial statements audit work will be included in our Auditor’s Annual Report.

Our opinion on the financial statements

Our audit is ongoing with a number of judgemental/ significant areas of the audit still to be completed. We will update the Audit Committee when we have completed our procedures on the form of the Audit Opinion.

Emphasis of matter and other matter paragraphs

Our audit is ongoing with a number of judgemental/ significant areas of the audit still to be completed. We will update the Audit Committee when we have completed our procedures on the form of the Audit Opinion.

Value for Money reporting by exception

Our opinion will note that our Value for Money work is on-going, it will also flag any significant weaknesses in the Council’s arrangements at the date it is issued and will be reported in our Auditor’s Annual Report.

Irregularities and fraud

We will explain the extent to which we considered the audit to be capable of detecting irregularities, including fraud.

In doing so, we will describe the procedures we performed in understanding the legal and regulatory framework and assessing compliance with relevant laws and regulations. We will discuss the areas identified where fraud may occur and any identified key audit matters relating to fraud.

Recent changes to ISAs (UK) mean this requirement will apply to **all** entities for periods commencing on or after 15 December 2019.

Your annual report

We are required to report by exception on any issues identified in respect of the Narrative Report and 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 are in the process of completing the following: • Assessing whether the Narrative Report has been prepared in accordance with CIPFA guidance; and • Reviewing the Narrative Report to assess whether it is consistent with the annual accounts and our knowledge acquired during the course of performing the audit, and is not otherwise misleading. Based on our initial review, we have suggested a number of minor changes to the Narrative Report, which management are considering. We will review the updated Narrative Report on receipt from management and report back to the Audit Committee any further observations.
Annual Governance Statement	The Annual Governance Statement reports that governance arrangements provide assurance, are adequate and are operating effectively.	We are in the process of completing the following: • Assessing whether the information given in the Annual Governance Statement meets the disclosure requirements set out in CIPFA guidance, is misleading, or is inconsistent with other information from our audit. Based on our initial review, we have suggested a number of minor changes to the Annual Governance Statement, which management are considering. We will review the updated Annual Governance Statement on receipt from management and report back to the Audit Committee any further observations.

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 Council 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:

- Current status of our work on key audit judgements and our observations on the quality of your Statement of Accounts and Narrative Report;
- Our internal control observations; and
- Other insights we have identified to the date of issuing our report.

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.

Use of this report

This report has been prepared for 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.

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 Audit Committee.

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 work under the Code of Audit Practice in respect of Value for Money arrangements.

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

Deloitte LLP

Deloitte LLP

Newcastle upon Tyne| 3 November 2021

Appendices

Audit adjustments

Corrected misstatements

The following misstatements above our reporting threshold of £0.5m have been identified up to the date of issue of this report, which have been corrected by management. We nonetheless communicate them to you to assist you in fulfilling your governance responsibilities, including reviewing the effectiveness of the system of internal control.

		Debit/ (credit) Comprehensive Income and Expenditure Statement £m	Debit/ (credit) OCI £m	Debit/(credit) Net Assets £m	Debit/ (credit) General Fund £m	Debit/ (credit) Unusable Reserves £m
Misstatements identified in current year						
Pension – Treatment of upfront pension contributions	[1]	-	-	23.2	-	(23.2)
Accruals – Over-accrual in relation to Housing Benefit overpayment	[2]	(5.7)	-	5.7	-	-
Grant income – Local Tax income guarantee scheme	[3]	(0.8)	-	0.8	-	-
Creditors – Debit balances in creditors ledger	[4]	-	-	-	-	-
CIES – Manual adjustment	[5]	-	-	-	-	-
Total		**(6.5)**	**-**	**29.7**	**-**	**(23.2)**

We have set out on the following pages additional detail in relation to each of the misstatements highlighted above.

Audit adjustments (continued)

Corrected misstatements

We have set out below further detail in relation to each of the misstatements identified in the table on the previous page.

Title	Finding
[1] Pension – Treatment of upfront pension contributions	As part of the triennial revaluation of the LGPS, the Council agreed to pay pension contributions totalling £34m in April 2020. These payments covered the years 2020/21, 2021/22 and 2022/23, with a total of £23.2m relating to the years after 2020/21. On review of the IAS 19 report produced by the Council's actuary, it was noted that the actuary had not included the upfront payment in their initial valuation for 2020/21. The Council therefore requested a revised IAS19 valuation that included this information. The impact was that the net pension liability for 2020/21 reduced by £23.2m. In the draft Statement of Accounts, the Council included the upfront pension contributions of £23.2m in the pension reserve, which is an unusable reserve. However, per the CIPFA Code this reserve should only contain transactions that have previously been included in the Comprehensive Income and Expenditure Statement (CIES). The upfront pension contributions for 2021/22 and 2022/23 have not been recognised in the CIES and therefore they should not be included in the pensions reserve. As a result, it was agreed with the Council that this treatment was incorrect and instead the upfront pension contributions should be recognised in the net pension liability at 31 March 2021, which is in line with the recognition principles set out in IAS19.
[2] Accruals – Over-accrual in relation to Housing Benefit overpayment	In the draft financial statements, the Council included an accrual of £5.7m in relation to historic overpayments made to Housing Benefit claimants. The Council explained that this accrual was made on the assumption the Council would need to make a repayment to the DWP for the overpayment amount. However, the Council have confirmed that this payment has not been made to the DWP post year end. In addition, it is our understanding that Housing Benefit overpayments in year are reflected in the Housing Benefit subsidy claim, which calculates the overall eligible subsidy payment the Council can claim for the year. The overall eligible subsidy amount is disclosed in the Statement of Accounts at the year end, and as this figure takes into account the total overpayments made in year, it is not necessary to include a separate accrual for overpayments.
[3] Grant income – Local Tax income guarantee scheme	The Council have included a value of £0.4m in their draft Statement of Accounts in relation to the Local Tax Income Guarantee Scheme based on the draft guidance issued by MHCLG in April 2021. However, in July 2021 MHCLG released a revised calculation for the amount of income each Local Authority would receive under the scheme. After completing this calculation, the Council identified that the total amount of income due for 2020/21 was £1.2m, which is an increase of £0.8m. Both the CIPFA and Central Government guidance has highlighted that this income should be reflected in full in 2020/21 and therefore the Council has decided to recognise the revised calculation in the 2020/21 Statement of Accounts. It should be noted that this is a national issue.

Audit adjustments (continued)

Corrected misstatements

We have set out below further detail in relation to each of the misstatements identified in the table on the previous page.

Title	Finding
[4] Creditors – Debit balances in creditors ledger	Our testing has identified debit balances of £0.9m that are included on the creditors ledger. Given the nature of these balances, we would expect them to be reclassified to debtors which would have the impact of increasing the creditors value by £0.9m and also increasing the debtors value in the accounts by £0.9m.
[5] CIES – Manual adjustment	When preparing the Statement of Accounts, the Council is required to remove all internal recharges from the trial balance before the accounts are produced. This is in line with CIPFA guidance that states transactions between internal Council departments should not be disclosed in the CIES. As part of our audit procedures, we review and test this process in order to gain assurance no material misstatements have occurred as a result of the manual adjustments made by the Council. This testing is still ongoing, however we have identified one manual adjustment that has been made in error of £4.7m. The impact of this adjustment is that both gross income and gross expenditure in the draft CIES were understated by £4.7m. The net impact of this error on the Deficit on Provision of Services line is £nil.

Uncorrected misstatements – based on the procedures so far performed, we have not identified any uncorrected misstatements above our reporting threshold of £0.5m, as part of our work.

Outstanding items

Items outstanding at the date of issue of this report

The following are the principal outstanding items required to complete our audit.

- Queries with the Council's property valuer in relation to some of the year end valuations
- Resolution of queries in relation to the long term investment value disclosed in the Council's accounts
- Review of the Council's long term debtor recoverability assessment
- Finalisation of review of manual adjustments made by the Council to the CIES
- Receipt and review of amended financial statements
- Completion of our internal quality assurance procedures
- Review of events from 31 March 2021 to the date of signing the financial statements
- Receipt of signed management representations letter
- Value for Money procedures to be finalised within 3 months of the date of the audit opinion

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 2021 in our final report to the Audit Committee.
Fees	There are no non-audit fees for 2020/21 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 no 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 (continued)

The professional fees expected to be charged by Deloitte in the period from 1 April 2020 to 31 March 2021 are as follows:

	2020/21 Audit £	2019/20 Audit £
Financial statement audit including Whole of Government work [1]*	84,818	84,818
Additional fee for prior year audit [2]*	-	TBC
Additional fee for changes in the current year [3]*	TBC	-
Total audit	84,818	84,818
Teachers’ Pensions certification fees	TBC	4,000
Pooling of Housing Capital Receipts certification fees	TBC	4,000
Housing benefits certification fees	-	10,250
Total assurance services	TBC	8,000
Total fees	TBC	TBC

[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 based on the individual circumstances of each body, we will be looking to discuss with the Council the current level of fee.

[2] Fee for additional audit work to be agreed. This will include the impact of the acquisition of Houndshill, Covid-19 procedures and prior year restatements.

[3] Fee for additional audit work relating to changes to the work required on Value for Money, updated auditing standards and Covid-19 procedures. We expect this to be in the range of £25,000 - £30,000.

* All additional fees are subject to agreement with PSAA.

Deloitte.