cutting through complexity

Report to those charged with governance (ISA 260) 2014/15

Blackpool Council

September 2015

Contents

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Trevor Rees, the engagement lead to the Authority, who will try to resolve your complaint. Trevor is also the national contact partner for all of KPMG's work with the Audit Commission. If you are dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

Introduction

This document summarises:

- **the key issues identified during our audit of the financial statements for the year ended 31 March 2015 for the Authority; and**
- **our assessment of the Authority's arrangements to secure value for money.**

Scope of this report

This report summarises the key findings arising from:

- our audit work at Blackpool Council ('the Authority') in relation to the Authority's 2014/15 financial statements; and
- the work to support our 2014/15 conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

Financial statements

Our *External Audit Plan 2014/15*, presented to you in January 2015, set out the four stages of our financial statements audit process.

This report focuses on the third stage of the process: substantive procedures. Our on site work for this took place during August 2015.

We are now in the final phase of the audit, the completion stage. Some aspects of this stage are also discharged through this report.

VFM conclusion

Our External Audit Plan 2014/15 explained our risk-based approach to VFM work. We have now completed the work to support our 2014/15 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion;
- considering the results of any relevant work by the Authority and other inspectorates and review agencies in relation to these risk areas; and
- carrying out additional risk-based work.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 2014/15 financial statements of the Authority.
- Section 4 outlines our key findings from our work on the VFM conclusion. are included in Appendix 1. We have also reviewed your progress in implementing prior recommendations and this is detailed in Appendix 2.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

Headlines

This table summarises the headline messages for the Authority. The remainder of this report provides further details on each area.

Proposed audit opinion	Our overall audit approach is unchanged from last year. Our work is carried out in four stages and the timings for these and our work on site has been agreed with the Director of Resources. We anticipate issuing an unqualified audit opinion on the Authority's financial statements by 30 September 2015. We will also report that your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.
Audit adjustments	Our audit has identified one audit difference that relates to 2014/15. This balance is not been adjusted by the Authority but as it is not material, it does not have an effect on our audit opinion. The details of the difference are provided in Appendix 3. We have also identified a number of control recommendations from our work. This is summarised in Appendix 1.
Key financial statements audit risks	We review risks to the financial statements on an ongoing basis. Other than those reported to you in our Audit Plan, and reported in section 3, we identified no additional significant risks specific to the Authority during 2014/15 with respect to the financial statements. We are satisfied that the Authority has appropriate arrangements in place to address the risks and issues that we have identified. See Section 3 for details of our findings.
Accounts production and audit process	We have noted an improvement in the quality of the accounts and the supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales. The Authority has implemented all of the recommendations in our *ISA 260 Report 2013/14* relating to the financial statements. The Authority has good processes in place for the production of the accounts and good quality supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales.
Completion	At the date of this report our audit of the financial statements is substantially complete subject to completion of the following areas: ■ Completion of whole of government accounts review. ■ Review of final subsidiary accounts ■ Review of post balance sheet events up to the date of signing the audit report. Before we can issue our opinion we require a signed management representation letter. We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Headlines

VFM conclusion and risk areas	We identified a VFM risk about the Authority's savings plans in our Audit Plan, issued in January 2015. We have worked with officers throughout the year to discuss these VFM risks and our detailed findings are reported in section 4 of this report. There are no matters of any significance arising as result of our audit work in these VFM risk areas. We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2015.

Financial Statements
Proposed opinion and audit differences

We have identified one audit difference that has not been adjusted for. It is not material to the accounts, but is above our posting threshold.

Proposed audit opinion

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's financial statements following approval of the Statement of Accounts by the Audit Committee on 24 September.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final materiality (see Appendix 5 for more information on materiality) level for this year's audit was set at £10.7 million. Audit differences below £535,000 are not considered significant and fall below our threshold for reporting to the Audit Committee.

We identified one difference that was above our reporting threshold, but was not material. The Council has not adjusted for this item, which relates to the changes in accounting guidance for voluntary aided schools. We also identified a number of issues that have been adjusted by management which fall below the threshold for reporting to the Audit Committee.

The table opposite details the balances tested on the balance sheet, none of which require adjusting materially.

In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 ('the Code')*. We understand that the Authority will be addressing these where significant.

Annual Governance Statement

We have reviewed the Annual Governance Statement and confirmed that:

- it complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE; and
- it is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

Balance Sheet as at 31 March 2015	£m
Property, plant and equipment	759,842
Other long term assets	42,484
Current assets	41,587
Current liabilities	(125,462)
Long term liabilities	(435,296)
Net worth	**283,155**
General Fund	11,242
Other usable reserves	59,460
Unusable reserves	212,453
Total reserves	**283,155**

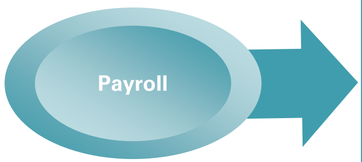
Financial Statements (continued)
Significant risks and key areas of audit focus

We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus

This section sets out our detailed findings on those risks

In our External Audit Plan 2014/15, presented to you in January 2015, we identified two significant risks affecting the Authority's 2014/15 financial statements, which are those required by auditing standards. We also identified three areas of audit focus. These are not considered as significant risks but areas of importance where we would carry out some substantive audit procedures to ensure there is no risk of material misstatement.

We have now completed our testing. The table sets out our detailed findings for these areas of audit focus.

Area of audit focus	Issue	Findings
	The size of the Authority's payroll costs require this to be an area of audit focus, despite the routine nature of many of the transactions. **Our proposed audit work** We will compare the payroll costs recognised in the general ledger to our expectations, based on our knowledge of the force, to ensure that the overall payroll costs are reasonable. Specific elements of the remuneration report will be agreed back to payroll records held by the force.	We have reviewed the payroll costs recognised in the general ledger to our expectations, based on our knowledge of the organisation, to ensure that the overall payroll costs are reasonable. We have also agreed key personnel expense disclosures within the financial statements back to payroll records and have ensured that the presentation of these elements are consistent with the Local Government Code of Practice 2014/15. We have benchmarked the key assumptions used by the Local Council Pension Fund actuaries against KPMG's standard assumptions. We have found that the assumptions used are in line with the expectations of KPMG's standard assumptions. As part of our audit work we have also: ■ reviewed the internal processes and procedures associated with obtaining and reporting pensions data within the financial statements; ■ reviewed relevant actuarial valuation documentation and considered the disclosure implications on the 2014/15 financial statements; and ■ reviewed the information passed to your actuaries to enable them to complete their calculations. Our work has not identified any issues which we need to report to you as part of this report.

Financial Statements (continued)
Significant risks and key areas of audit focus (continued)

Significant audit risk	Issue	Findings
PPE	The size and unique nature of the Authority's fixed asset balances requires this to be an area of audit focus. **Our proposed audit work** We will review the valuation exercise undertaken by the Authority as at 31 March 2015 to ensure that increases in asset valuations are recognised appropriately in the Authority's balance sheet. We will also focus on fixed asset additions to ensure that they have been accounted for correctly within the financial statements.	The Authority gained a £2.02 million increase in the revaluation reserve with a decrease in valuation of £9.89 million taken to the provision of services. We have reviewed the assumptions made in relation to these valuations by the internal valuers. Valuations have been agreed to the third party report along with confirming that the correct accounting treatment has been applied to appropriately recognise the asset in the balance sheet. A sample of additions were also tested and agreed back to supporting documentation. From our audit work we have gained assurance that the treatment and recognition of PPE is recognised appropriately on the balance sheet with no material misstatement identified
Cash	Cash is an area that, due to its nature, will always be an area of special audit focus. **Our proposed audit work** We will verify the bank and loan balances held by the Authority to ensure that these are supported by third party confirmations.	The Authority's cash balance is £3.57 million in 2014/15 compared to £6.85 million in 2013/14. The reduction is mainly attributed to the creation of the Blackpool Entertainment Company as a wholly owned subsidiary of the Authority, maintaining its own cash balances; these balances were held by the Authority last year. We have agreed the cash balance to supporting third party confirmation as well as agreeing to the trial balance and year end bank reconciliation. Supporting documents such as bank statements and general ledger entries were also reviewed. In additions, loans and borrowing were confirmed to third party documentation.

Financial Statements (continued)

Significant risks and key areas of audit focus (continued)

In our *External Audit Plan 2014/15* we reported that we would consider two risk areas that are specifically required by professional standards and report our findings to you. These risk areas were management override of controls and the fraud risk of revenue recognition.

The table below sets out the outcome of our audit procedures and assessment on these risk areas.

Areas of significant risk	Summary of findings
Management override of controls Audit areas affected ■ All areas	Our audit methodology incorporates the risk of management override as a default significant risk. Management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We have not identified any specific additional risks of management override relating to this audit. In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual. There are no matters arising from this work that we need to bring to your attention.
Fraud risk of revenue recognition Audit areas affected ■ None	Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. In our External Audit Plan 2014/15 we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue. This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.

Financial Statements (continued)
Accounts production and audit process

The Authority has a well established and sound accounts production process. This operated well in 2014/15, and the standard of accounts and supporting working papers was good.

Officers dealt promptly and efficiently with audit queries and the audit process was completed within the planned timescales.

Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the Authority's accounting practices and financial reporting. We also assessed the Authority's process for preparing the accounts and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The Authority continues to maintain a good financial reporting process and produce statements of accounts to a good standard. We consider that accounting practices are appropriate
Completeness of draft accounts	We received a complete set of draft accounts on 3 August 2015. The Authority have made a small number of presentational changes to the accounts presented for audit however there have been no changes which we consider to be fundamental.
Quality of supporting working papers	We issued our *Accounts Audit Protocol* including our required working papers for the audit on 15 June 2015. The quality of working papers provided was high and fully met the standards specified in our *Accounts Audit Protocol*.
Response to audit queries	Officers resolved all audit queries in a timely manner.
Group audit	To gain assurance over the Authority's group accounts, we placed reliance on work completed by Baker Tilly on the financial statements of *Blackpool Coastal Housing*. There are no specific matters to report pertaining to the group audit.

Prior year recommendations

As part of our audit we have specifically followed up the Authority's progress in addressing the recommendation in last year's ISA 260 report.

The Authority has implemented the recommendation in our *ISA 260 Report 2013/14*.

Appendix 2 provides further details.

Financial Statements (continued) Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will prepare our *Annual Audit Letter* and close our audit.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of Blackpool Council for the year ending 31 March 2015, we confirm that there were no relationships between KPMG LLP and Blackpool Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 4 in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Responsible Finance Officer for presentation to the Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- significant difficulties encountered during the audit;
- significant matters arising from the audit that were discussed, or subject to correspondence with management;
- other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report.

Value for Money
VFM conclusion

Our VFM conclusion considers how the Authority secures financial resilience and challenges how it secures economy, efficiency and effectiveness.

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Background

Auditors are required to give their statutory VFM conclusion based on two criteria specified by the Audit Commission. These consider whether the Authority has proper arrangements in place for:

- securing financial resilience: looking at the Authority's financial governance, financial planning and financial control processes; and
- challenging how it secures economy, efficiency and effectiveness: looking at how the Authority is prioritising resources and improving efficiency and productivity.

We follow a risk based approach to target audit effort on the areas of greatest audit risk. We consider the arrangements put in place by the Authority to mitigate these risks and plan our work accordingly.

The key elements of the VFM audit approach are summarised in the diagram below.

Work completed

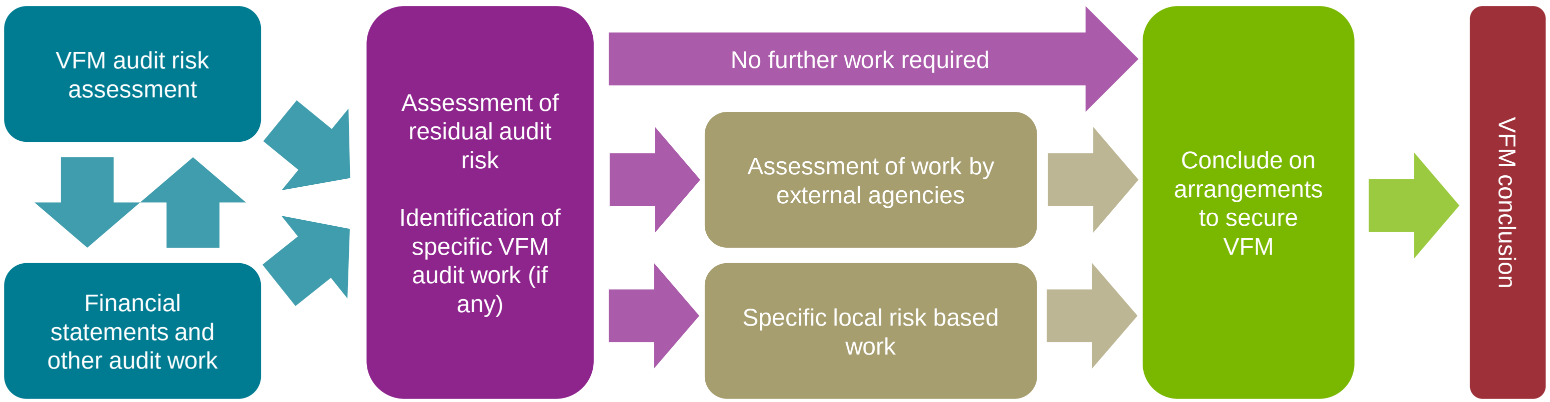
We performed a risk assessment earlier in the year and have reviewed this throughout the year.

We identified one potentially significant risk to our VFM conclusion which required us to undertake.

Conclusion

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

VFM criterion	Met
Securing financial resilience	✓
Securing economy, efficiency and effectiveness	✓



Value for Money (continued)
Specific VFM risks

We have identified one specific VFM risk.

We are satisfied that external or internal scrutiny and the additional work that we have undertaken provides sufficient assurance that the Authority's current arrangements in relation to this risk area are adequate.

Work completed

In line with the risk-based approach set out on the previous page, and in our *External Audit Plan* we have:

- assessed the Authority's key business risks which are relevant to our VFM conclusion;
- identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit;
- considered the results of relevant work by the Authority, inspectorates and review agencies in relation to these risk areas

Key findings

Below we set out the findings in respect of those areas where we have identified a residual audit risk for our VFM conclusion.

We concluded that we did not need to carry out additional work for these risks as there was sufficient relevant work that had completed by the Authority, inspectorates and review agencies in relation to these risk areas.

Key VFM risk	Risk description and link to VFM conclusion	Assessment
	The Authority is required to make further additional savings after 2014/15 as a result of the reductions on overall funding it is expected to receive. In 2015/16, savings of £25 million per annum are required, with additional year on year savings of £20 million p.a. required in 2016/17, and an additional £13 million p.a. required in 2017/18. The savings required for 2015/16 have now been identified by the Authority, but further work is still required to identify the additional savings required in future years, principally to address future reductions to local authority funding alongside service cost and demand pressures. The need for savings will have a significant impact on the Authority's financial resilience.	The Authority's medium term financial plan covers the period to 2017/18. It identifies the funding sources available to the Authority each financial year, the cost base brought forward from the previous year, and the inflationary pressures on this cost base. The assumptions driving this element of the plan were reviewed, and considered to be reasonable. The other significant element of the plan is the annual savings plans contained within the plan, that reduce the annual costs facing the Authority and bring the expenditure for the year into balance with the funding available. These savings requirements were £25.2 million in 2015/16, £19.7 million in 2016/17 and £12.6 million in 2017/18. The Authority has delivered 100% of its savings plans for 2014/15, and has firm plans in place to deliver 100% of the 2015/16 savings requirements as well. These are also on schedule to be delivered. On this basis, we believe that the Authority's plans demonstrate that appropriate arrangements are in place to deliver value for money.

Appendix 1: Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

Priority rating for recommendations		
❶ ***Priority one***: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	❷ ***Priority two***: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	❸ ***Priority three***: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
1	❷	**Payroll reconciliation segregation of duties** It was identified from review of the monthly payroll reconciliations, the same individual prepares and authorises the reconciliation. There is a risk that the payroll inaccuracies are not being followed up correctly along with a risk of fraud with no segregation of duties being identified. ***Recommendation*** We recommend that the Authority implement a segregation of duties during this reconciliation. We are aware the initial preparer left the Authority last year and that finance are aware of this issue.	***Management response*** We are aware of this issue. However, with reduced levels of staff, segregation of duties is proving more difficult. This situation will worsen in future years due to the forecast levels of cuts required. We will review the procedures for 2015/16. ***Responsible officer*** Phil Redmond ***Due date*** March 2016

Appendix 1: Key issues and recommendations

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
2	2	**Disabling leavers on finance system** From the IT review of the finance system, seven leavers were identified as having left the Authority but had not had their access to the finance system disabled. Although we have gained assurance that these leavers were removed in a timely basis, there is a risk that leavers can access confidential information after they have left. ***Recommendation*** We understand that finance has strengthened its procedures for reviewing the list of leavers provided by HR to ensure all leavers with finance system access are identified. However, we recommend that the Authority examine the issue of system access on an Authority-wide basis to identify a way for system administrators to be notified of leavers with access to their system automatically, removing the need for these administrators in finance, and other departments of the Authority, to individually scan review lists of all members of staff who have left the Authority and identify those that are relevant to their system. This will make the process more efficient for the Authority as a whole.	***Management response*** A review of the financial systems procedures have taken place and procedures have been strengthened to prevent this occurring in future. However, we welcome KPMG's proposal for an Authority-wide review to identify ways to make the process more efficient. ***Responsible officer*** Carmel McKeogh / Tony Doyle ***Due date*** March 2016

Appendix 1: Key issues and recommendations

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
3	2	**Recognition of school assets** New accounting guidance was issued by CIPFA on the recognition of voluntary aided schools in local authority balance sheets. We reviewed the status of the voluntary aided schools identified in the Council's balance sheet. Of these, there were two schools (St John Vianney and St Kentigerns, both Catholic primary schools) that, in our interpretation of the guidance, should not be recognized by the Council. This is because the Lancaster Diocese has not relinquished the rights its ownership of the school conveys. There is a risk that the Authority have overstated assets by recording long-term school assets to which the Council does not have the risks and rewards of ownership. ***Recommendation*** We recommend the Authority reviews its accounting treatment of the two schools affected, and considers whether a change in accounting treatment should be adopted in the 2015/16 financial statements.	***Management response*** These schools were brought onto the balance sheet in 2001/02 on the instruction of the Audit Commission. Although the assets are not owned by the Authority, we believe that the Authority receives economic benefits and future provision of service. Therefore they remained on the balance sheet. We will review the accounting treatment of these schools in 2015/16. ***Responsible officer*** Phil Redmond / David Fish ***Due date*** March 2016
4	3	**Transfer agreement from School to Academy** From a sample schools converted to academies, two out of the four tested did not have an original transfer agreement signed by both parties. There is a risk that the terms of the contract and ownership of assets are not agreed upon. ***Recommendation*** The Authority should ensure controls are in place to obtain a signed copy of the transfer agreement from both parties and that this is in place for all Academies.	***Management response*** Legal Services have been informed of this and will ensure fully signed documents are kept on file for future Academy transfers. ***Responsible officer*** Carmel White ***Due date*** March 2016

Appendix 2: Follow up of prior year recommendations

The Authority has implemented the recommendation raised in our *ISA 260 Report 2013/14.*

This appendix summarises the progress made to implement the recommendations identified in our *ISA 260 Report 2013/14* and re-iterates any recommendations still outstanding.

Number of recommendations that were:	
Included in original report	1
Implemented in year or superseded	1
Remain outstanding (re-iterated below)	0

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at August 2015
1	2	**Disposing of new build Academies** It was identified through our testing of Property, Plant and Equipment (PPE), that a new build Academy opened during the year was incorrectly classified as an Asset under Construction. The Academy should no longer be categorised on the balance sheet and should be treated as a fixed asset disposal in the Comprehensive Income and Expenditure Account (CIES). Although the Authority has a process to ensure new Academies are recognised and appropriately disposed of on the balance sheet, this Academy was overlooked due to being a new build as opposed to a converted school. **Recommendation** The Authority need to ensure existing controls around the disposal of converted Academies incorporate the disposal of new build Academies.	**Responsible officer** David Fish **Due date** 31 March 2015	Disposals are discussed during senior management meetings. The Fixed asset team are updated regularly from these meetings. Disposals are then reconciled and reviewed on a regular basis on the fixed asset register. From our audit work around disposals, this was reviewed and there were no further issues identified. **Implemented**

Appendix 3: Audit differences

This appendix sets out the audit differences.

The financial statements have been amended for all bar one of the errors identified through the audit process.

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

Uncorrected audit differences

The following table sets out the uncorrected audit difference identified by our audit of Blackpool Council's financial statements for the year ended 31 March 2015.

	Impact					
No.	**Income and Expenditure Statement**	**Movement in Reserves Statement**	**Assets**	**Liabilities**	**Reserves**	**Basis of audit difference**
1			Cr Property, Plant and Equipment £3.18 million		Dr Revaluation Reserve £3.18 million	It is KPMG's view that the new accounting guidance issued by CIPFA requires two of the Authority's Roman Catholic primary schools be de-recognized from the Authority's balance sheet.
	£nil	**£nil**	**Cr £3.18 million**	**£nil**	**Dr £3.18 million**	**Total impact of uncorrected audit differences**

Corrected audit differences

There are no significant audit differences that have been adjusted for in the financial statements.

Our audit identified a small number of non-significant errors in the financial statements. These have been discussed with management and the financial statements have been amended for all of them.

Appendix 3: Audit differences (continued)

Presentational amendments

A number of minor amendments focused on presentational improvements have also been made to the draft financial statements. Below, we have listed the presentational amendments which were deemed of sufficient significance to be reported separately:

Financial Instruments

We identified the Financial Instruments disclosure did not disclose all financial instrument related figures. The Authority are aware of this and are in the process of revising this disclosure in line with the 2014/15 accounts. There is no impact on the financial statements.

Related Parties

Due to the number of related party disclosures in the year, we have advised the Authority to reword the related party note to consider all parties overall rather than individually. This is comparative to other local councils in the area.

It should be noted that all of the above are presentational issues only and did not have an impact on the Authority's historic surplus for the year. In addition, all have been amended as appropriate in the updated set of financial statements. The Finance Department are committed to continuous improvement in the quality of the financial statements submitted for audit in future years.

Appendix 4: Declaration of independence and objectivity

The *Code of Audit Practice* requires us to exercise our professional judgement and act independently of both Public Sector Audit Appointments Ltd and the Authority.

Requirements

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the *Code of Audit Practice* (the 'Code') which states that:

"Auditors and their staff should exercise their professional judgement and act independently of both the Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body that does not relate directly to the discharge of auditors' functions, if it would impair the auditors' independence or might give rise to a reasonable perception that their independence could be impaired."

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Public Sector Audit Appointments Ltd *Terms of Appointment* ('Public Sector Audit Appointments Ltd Guidance') and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Public Sector Audit Appointments Ltd guidance requires appointed auditors to follow the provisions of ISA (UK &I) 260 *Communication of Audit Matters with Those Charged with Governance*' that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.
- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our *Annual Audit Letter*.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Appendix 4: Declaration of independence and objectivity (continued)

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the *Ethics and Independence Manual* ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual ethics and independence confirmation. Failure to follow these policies can result in disciplinary action.

Auditor declaration

In relation to the audit of the financial statements of Blackpool Council for the financial year ending 31 March 2015, we confirm that there were no relationships between KPMG LLP and Blackpool Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

Appendix 5: Materiality and reporting of audit differences

For 2014/15 our materiality is £10.7 million for the Authority's accounts.

We have reported all audit differences over £0.535 million for the Authority's accounts to the Audit Committee.

Materiality

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

- Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.
- Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.
- Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our External Audit Plan 2014/15, presented to you in January 2015

Materiality for the Authority's accounts was set at £10.7 million which equates to around 2.7% percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £535,000 million for the Authority.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

Appendix 6: KPMG Audit Quality Framework

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG.

The diagram summarises our approach and each level is expanded upon.

At KPMG we consider audit quality is not just about reaching the right opinion, but how we reach that opinion. KPMG views the outcome of a quality audit as the delivery of an appropriate and independent opinion in compliance with the auditing standards. It is about the processes, thought and integrity behind the audit report. This means, above all, being independent, compliant with our legal and professional requirements, and offering insight and impartial advice to you, our client.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG. We use our seven drivers of audit quality to articulate what audit quality means to KPMG.

We believe it is important to be transparent about the processes that sit behind a KPMG audit report, so you can have absolute confidence in us and in the quality of our audit.

Tone at the top: We make it clear that audit quality is part of our culture and values and therefore non-negotiable. Tone at the top is the umbrella that covers all the drives of quality through a focused and consistent voice. Trevor Rees as the Engagement Lead sets the tone on the audit and leads by example with a clearly articulated audit strategy and commits a significant proportion of his time throughout the audit directing and supporting the team.

Association with right clients: We undertake rigorous client and engagement acceptance and continuance procedures which are vital to the ability of KPMG to provide high-quality professional services to our clients.

Clear standards and robust audit tools: We expect our audit professionals to adhere to the clear standards we set and we provide a range of tools to support them in meeting these expectations. The global rollout of KPMG's eAudIT application has significantly enhanced existing audit functionality. eAudIT enables KPMG to deliver a highly technically enabled audit. All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.

Recruitment, development and assignment of appropriately qualified personnel: One of the key drivers of audit quality is assigning professionals appropriate to the Authority's risks. We take great care to assign the right people to the right clients based on a number of factors including their skill set, capacity and relevant experience.

We have a well developed technical infrastructure across the firm that puts us in a strong position to deal with any emerging issues. This includes:

- A national public sector technical director who has responsibility for co-ordinating our response to emerging accounting issues, influencing accounting bodies (such as CIPFA) as well as acting as a sounding board for our auditors.

- A national technical network of public sector audit professionals is established that meets on a monthly basis and is chaired by our national technical director.

- All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.

- A dedicated Department of Professional Practice comprised of over 100 staff that provide support to our audit teams and deliver our web-based quarterly technical training.

Appendix 6: KPMG Audit Quality Framework (continued)

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

Quality must build on the foundations of well trained staff and a robust methodology.

Commitment to technical excellence and quality service delivery: Our professionals bring you up- the-minute and accurate technical solutions and together with our specialists are capable of solving complex audit issues and delivering valued insights.

Our audit team draws upon specialist resources including Forensic, Corporate Finance, Transaction Services, Advisory, Taxation, Actuarial and IT. We promote technical excellence and quality service delivery through training and accreditation, developing business understanding and sector knowledge, investment in technical support, development of specialist networks and effective consultation processes.

Performance of effective and efficient audits: We understand that how an audit is conducted is as important as the final result. Our drivers of audit quality maximise the performance of the engagement team during the conduct of every audit. We expect our people to demonstrate certain key behaviors in the performance of effective and efficient audits. The key behaviors that our auditors apply throughout the audit process to deliver effective and efficient audits are outlined below:

- timely Engagement Lead and manager involvement;
- critical assessment of audit evidence;
- exercise of professional judgment and professional scepticism;
- ongoing mentoring and on the job coaching, supervision and review;
- appropriately supported and documented conclusions;
- if relevant, appropriate involvement of the Engagement Quality Control reviewer (EQC review);
- clear reporting of significant findings;
- insightful, open and honest two-way communication with those charged with governance; and
- client confidentiality, information security and data privacy.

Commitment to continuous improvement: We employ a broad range of mechanisms to monitor our performance, respond to feedback and understand our opportunities for improvement.

Our quality review results

Public Sector Audit Appointments Ltd publishes information on the quality of work provided by us (and all other firms) for audits undertaken on behalf of them (http://www.psaa.co.uk/audit-quality/principal-audits/kpmg-audit-quality/).

The latest Annual Regulatory Compliance and Quality Report (issued June 2014/2015) showed that we are meeting the overall audit quality and regulatory compliance requirements.

cutting through complexity