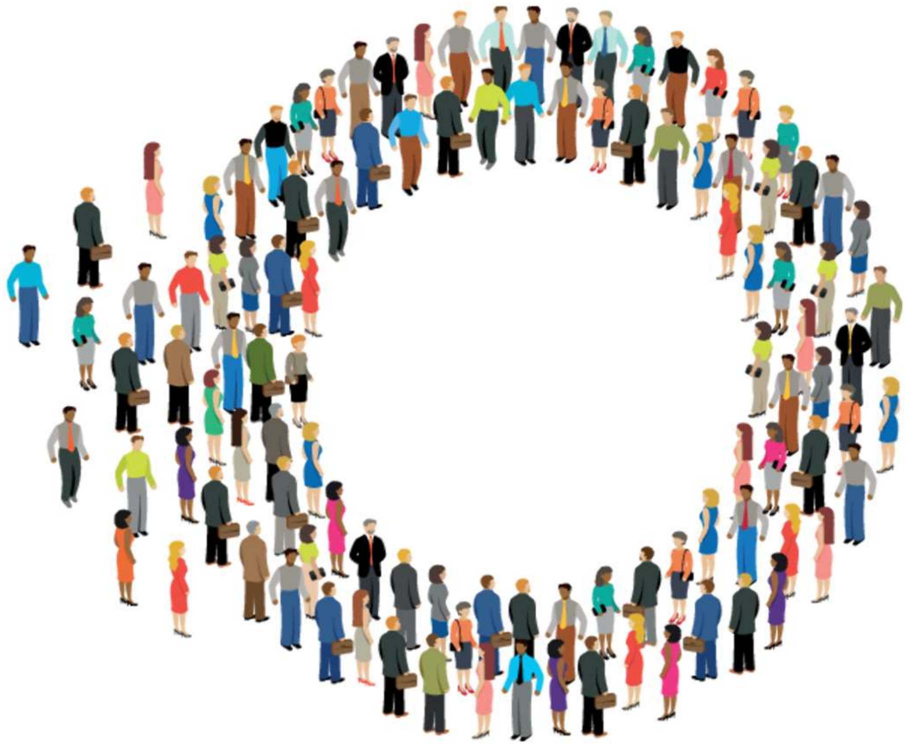
Appendix 5(b)



Blackpool Council

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

Issued on 18 July 2023 for the meeting on 27 July 2023

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 substantially complete, subject to completion of the following areas: • Review of the revised Statement of Accounts to ensure all expected adjustments have been made, including our review of the prior period adjustment disclosures; • Finalisation of our outstanding queries in relation to the accounting for Infrastructure Assets; • Completion of our internal quality assurance procedures; • Review of events from 31 March 2021 to the date of signing the financial statements; and • Receipt of signed management representation letter. 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 27 July 2023.
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 20. 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)

Infrastructure Assets and change in risk assessment	There have been a series of issues raised with CIPFA and the Department for Levelling Up, Housing and Communities (DLUHC) with regard to the treatment of infrastructure assets in local authority Statement of Accounts. Following a series of discussions at national technical groups, which were attended by Deloitte, and also several consultations that were overseen by CIPFA and DLUHC, the following has been issued: • **CIPFA Code Update** On 29 November 2022 the CIPFA code was updated to remove the requirement for authorities to disclose gross book value and accumulated depreciation for infrastructure assets. • **Statutory Instrument** A statutory instrument was laid before parliament on 30 November 2022, and came into effect on 25 December 2022, with the main purpose to allow authorities to make the assumption that any infrastructure asset additions recognised are replacing components that have been fully depreciated. • **CIPFA Bulletin 12 – Accounting for Infrastructure Assets – Temporary Solution** This was released on 12 January 2023 and provides example disclosures and examples of how both the Statutory Instrument and the Code update impact on the accounting for infrastructure assets. Based on the changes to the guidance and also the issues identified across the local government sector in relation to the accounting for infrastructure assets, the decision was made to make infrastructure assets an other area of audit focus. We have provided more detail regarding this risk and the audit findings at the point of writing this report on page 19. No other changes in risk assessment have occurred since we issued our audit plan.
Conclusions from our testing	We have identified four uncorrected misstatements, which impact on the primary statements, and three uncorrected disclosure misstatements. Further details of these misstatements can be viewed on pages 29 to 31. We have also identified two prior period adjustments, which impact on the primary statements, and one prior period adjustment that impacts on a disclosure note. Further details of these misstatements can be viewed at pages 32 to 34. The revised Statement of Accounts has been updated to reflect these prior period adjustments.
Narrative Report and Annual Governance Statement	• We have reviewed the Council's Narrative Report and Annual Governance Statement, to consider whether it is misleading or inconsistent with other information known to us from our audit work. • We suggested a number of changes to the Narrative Report. It is our understanding that these changes have been made by Officers. We are currently reviewing the revised Narrative Report to ensure that all expected changes have been made and we will verbally update the Audit Committee on 27 July 2023 after we have completed our review of the revised Narrative Report. • The quality of the draft Statement of Accounts has been discussed in more detail on page 7.

Introduction

The key messages in this report (continued)

Duties as public auditor	• We did not receive any objections from local electors this year. • We have not identified any matters that would require us to issue a public interest report. • We have not had to exercise any other audit powers under the Local Audit and Accountability Act 2014.
Whole of Government Accounts (WGA)	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). Although the OSCAR system has now closed the NAO still require us to complete an assurance statement in relation to the Council's 2020/21 Whole of Government Accounts submission. However, the Council falls below the new threshold of £2bn, and as a result the level of work required will be minimal.
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 have reviewed their audit reports to help inform our risk assessment procedures. 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

Quality Indicators

Impact on the execution of our audit

Management and those charged with governance are in a position to influence the effectiveness of our audit, through timely formulation of judgements, provision of accurate information, and responsiveness to issues identified in the course of the audit. This slide summarises some key metrics related to your control environment which can significantly impact the execution of the audit. We consider these metrics important in assessing the reliability of your financial reporting and provide context for other messages in this report.

Area	Grading	Reason
Timing of key accounting judgements	!	Management have discussed key judgement areas, such as property valuations, with the audit team throughout the audit. However, there have been a number of significant adjustments required in areas such as pensions (see page 18) and property valuations (see page 15), and we have identified a control weakness in relation to management's review of property valuation reports (see page 24).
Adherence to deliverables timetable	!	Management delivered against the agreed deliverables timetable, with only minor delays in some areas, largely due to limited capacity within the finance team. However, there were often several iterations of deliverables required.
Access to finance team		The finance team has been accessible throughout the audit. The audit team has had daily calls with the Corporate Finance Accountant, as well as weekly catch up calls with the Strategic and Technical Finance Manager and the Head of Accountancy to discuss audit queries.
Quality and accuracy of management accounting papers	!	Our review of management accounting papers has raised a number of queries and this has often resulted in additional work being required by the finance team. We have discussed improvement points with the finance team throughout the audit and are aware that these have been considered and taken into account when preparing working papers for the 2021/22 audit.

! Improvement required ! Developing Mature

Quality Indicators

Impact on the execution of our audit (continued)

Area	Grading	Reason
Quality of draft Statement of Accounts	!	Our initial review of the draft Statement of Accounts identified a number of inconsistencies between the primary statements and supporting notes. Our audit testing has also identified a significant number of material adjustments that were required to the draft Statement of Accounts in order to ensure compliance with the CIPFA Code. In addition, during the audit we became aware of a lack of secondary review of any revisions to the Statement of Accounts before they were presented to the audit team for audit. Further detail regarding this control finding can be viewed on page 24.
Volume and magnitude of identified errors	!	We have set out all unadjusted differences on pages 29 to 31. In addition, to these unadjusted errors, we have also identified four prior year adjustments and a large number of other adjustments above our reporting threshold of £0.5m. These are all set out on pages 32 to 41. The volume of required adjustments is more significant than we would usually expect and has resulted in additional time being required on the audit.

! Improvement required ! Developing Mature

Responsibilities of the Audit Committee

Helping you fulfil your responsibilities

Why do we interact with the Audit Committee?

To communicate audit scope

To provide timely and relevant observations

To provide additional information to help you fulfil your broader responsibilities

As a result of regulatory change in recent years, the role of the Audit Committee has significantly expanded. We set out here a summary of the core areas of Audit Committee responsibility to provide a reference in respect of these broader responsibilities 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. No new significant risks have been identified, but we have included a new other area of audit focus in relation to infrastructure assets.

Conclude on significant risk areas

We have set out the status of our significant risk work and conclusions reached on pages 10 to 15.

Our audit report

Our audit is ongoing but subject to the successful clearance of the outstanding areas on page 3 of this report, we expect to issue an unmodified audit opinion.

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 have completed the following procedures: • Assessed the design and implementation of the controls in relation to the accounting treatment of grant income, including Covid-19 grants; • Reviewed management's assessment of the accounting treatment of each significant grant claim, with a particular emphasis on Covid-19 related grants, and challenged the appropriateness of the approach adopted; and • Tested 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.
Findings and Conclusion	After completing our testing, we have identified no errors above our reporting threshold that impact on the income value recognised by the Council in the Comprehensive Income and Expenditure Statement (CIES). However, we have identified the following disclosure misstatements that have now been amended: • Three disclosure misstatements in note 43 – Grant Income of the draft Statement of Accounts that are above our reporting threshold were identified. Further detail of these misstatements can be found on page 41. • We identified that note 37 – Agency services did not include £109.4m of Covid-19 grant income where the Council had acted as an agent, receiving income on behalf of other organisations. Further detail of this misstatement can be found on page 40. No further matters were identified that we are required to bring to the attention of the Audit Committee.

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 have completed the following procedures: • Assessed the design and implementation of the key controls in place in relation to the recording of accruals; • Tested 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 • Tested 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.
Findings and Conclusion	After completing our testing, we have identified the following matters: • An over-accrual of £5.7m in relation to historic Housing Benefit overpayments was included in the draft Statement of Accounts. 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 Statement of Accounts and as a result it is not necessary to include a separate accrual at the year end. The Council have amended for this in the revised Statement of Accounts. Further detail in relation to this misstatement can be viewed on pages 35 and 36. • A documentation weakness relating to the year end accruals review meetings was also identified. Further detail in relation to this weakness can be viewed on page 22. No further matters were identified that we are required to bring to the attention of the Audit Committee.

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 have completed the following procedures: • Reviewed the design and implementation of the controls in place in relation to the valuation of property assets; • Considered 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; • Engaged our valuation specialists, Deloitte Real Assets Advisory, 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; • Engaged our valuation specialists, Deloitte Real Assets Advisory, to review and challenge the inclusion of a 'material valuation uncertainty' paragraph of the valuation reports for the Council owned car parks, Council Dwellings and Victoria Street properties; • Tested 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; • Reviewed assets not subject to valuation in 2020/21 in order to confirm that the remaining asset base is not materially misstated; and • Reviewed the presentation of revaluation movements, and the disclosures included in the Statement of Accounts.

Significant risks

Valuation of property assets (continued)

Findings and Conclusion

At the time of writing this report, we are completing our internal quality assurance procedures in relation to our work around the valuation of property assets, and we will provide the Audit Committee with an update on the status of these procedures on 27 July 2023.

However, our work to date has identified the following matters in relation the valuation of property assets:

- Two uncorrected misstatements relating to the valuation of the Council's car parks and the Houndshill Shopping Centre. The combined value of these misstatements is a valuation overstatement of £2.2m. Further detail regarding both misstatements can be viewed on pages 29 and 30.
- One corrected misstatement relating to the valuation of the Winter Gardens at 31 March 2021. Further detail regarding this can be viewed on pages 35 and 37.
- One control weakness relating to the lack of evidence of review of the valuation reports received from the valuers by officers. Further detail regarding this can be viewed on page 22.

It is also necessary to draw the Audit Committee's attention to the inclusion of 'material valuation uncertainty' paragraphs in the valuation reports for the Council owned car parks, Council Dwellings and Victoria Street properties. The revised Statement of Accounts have been updated to include paragraphs explaining the 'material valuation uncertainty' in notes 14 and 17.

The inclusion of these 'material valuation uncertainty' paragraphs mean that it is necessary for the audit opinion to draw attention to these paragraphs. As a result an 'emphasis of matter' will be added to the audit opinion to draw attention to management's disclosures.

No further matters have been identified that we are required to bring to the Audit Committee's attention.

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. **Journals** • We have tested the design and implementation of controls in relation to the processing of journals and accounting estimates. • We have made 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 have used 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** • 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 have reviewed accounting estimates for bias that could result in material misstatements due to fraud. • We have performed testing on key accounting estimates as discussed on pages 11, 12, 16 and 17.
Findings and Conclusion	We have completed our testing of journal entries and have no matters to report to the Audit Committee. We have concluded our work in relation to key accounting estimates on pages 11, 12, 16 and 17.

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 have completed the following procedures: • Agreed the actuarial report for the Council produced by Mercers, the scheme actuary, to the Statement of Accounts pension disclosures; • Reviewed the disclosures made in the Statement of Accounts against the requirements of the Code; • We have engaged the audit team of Lancashire County Pension Fund to request the completion audit procedures obtain over the information supplied to the actuary in relation to the Council; • Assessed the independence and expertise of the actuary supporting the basis of reliance upon their work; • Reviewed and challenged the assumptions made by Mercers; • Assessed the reasonableness of the Council's share of the total assets of the scheme by reference to the Pension Fund financial statements; and • Reviewed 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.
Findings and Conclusion	We have completed our procedures and identified the following matters: • The Council have not included the impact of the Goodwin pension ruling in the Statement of Accounts. Our actuarial specialists have estimated that if this were included it would increase the pension liability by £1m. Further detail is included on pages 29 and 30. • The Council made an upfront pension contribution on 1 April 2020. The impact of this was not included in the actuaries initial valuation. The inclusion of the pension contributions resulted in the pension liability reducing to £299m. In addition, the draft Statement of Accounts incorrectly accounted for the upfront pension contributions. This has now been amended in the revised Statement of Accounts. Further detail is included on pages 35 and 36. No further matters were identified that we are required to bring to the attention of the Audit Committee.

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 have completed the following procedures: • Reviewed the CIPFA Code and the requirements for investment valuations; • Consulted with Deloitte technical specialists regarding the application of the CIPFA Code; and • Agreed the values disclosed to underlying records.
Findings and Conclusion	At the time of writing this report, we are completing our internal quality assurance procedures in relation to our work around the valuation of property assets, and we will provide the Audit Committee with an update on the status of these procedures on 27 July 2023. Our work to date has identified the Council values the investments held using differing methods, with some investments valued at market value and others at cost. However, per the CIPFA Code the basis of valuation should be consistent across the whole class of asset. The audit team challenged the Council regarding the valuation inconsistency between investments and the Council agreed to amend the financial statements to ensure the valuation basis was consistent. The decision to value the investments at cost was made due to the nature of the investments held and the fact that they are not held for capital appreciation purposes, but instead to support the Council's wider regeneration objectives. As a result of the change being material, it was necessary for the Council to amend the opening position at the earliest possible date, which is 1 April 2019, to reflect that a similar situation was in place in previous years. This has been treated as a prior period adjustment in the Statement of Accounts. This has resulted in a decrease in the investment valuations at 1 April 2019 of £11.6m. A separate prior period adjustments disclosure has been added to the revised Statement of Accounts, which we are currently in the process of reviewing. Further detail regarding this adjustment can be found on pages 32 and 33. No further matters have been identified that we are required to bring to the Audit Committee's attention.

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 have completed the following procedures: • Obtained 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; • Reviewed and assessed 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 • Obtained and reviewed management's assessment of the recoverability of the loans.
Findings and Conclusion	We have completed our procedures and identified one control weakness relating to the loan agreements between the Council and its subsidiary companies not being signed. Further details regarding this control finding can be viewed on page 22. As part of our subsequent events work, it has come to light that one of the long term debtors, which totals £9.3m at 31 March 2021, is at risk of being repaid to the Council. However, we are aware that per the agreement between the Council and the third party the associated assets will revert to the Council on default of the debtor. We have reviewed the value of the assets as part of our audit procedures and identified that the value of the assets exceeds the value of the debtor amount and therefore we are comfortable that no provision for this amount has been included in the Statement of Accounts. No further matters have been identified that we are required to bring to the Audit Committee's attention.

Other areas of audit focus

Infrastructure assets

Risk identified	Infrastructure assets are inalienable assets, expenditure on which is only recovered by continued use of the asset created. They include carriageways, structures, street lighting, street furniture and traffic management systems, and are measured at historical cost, in line with the requirements of the CIPFA Code. The CIPFA Code requires that where a component of an asset is replaced: • the cost of the new component should be reflected in the carrying amount of the infrastructure asset; and • the gross costs and accumulated depreciation of the old component should be derecognised to avoid double counting. In 2020/21, auditors identified that local authorities in the UK have not been properly accounting for infrastructure assets since the move to IFRS due to deficits in the information held by authorities. This has resulted in the risk of Council's overstating the value of the infrastructure assets held, as assets that have been disposed of are not written out, and also inappropriate useful economic lives being used.
Deloitte response and challenge	We are in the process of finalising the following procedures: • Reviewing the full listing of the Council's infrastructure assets to ensure that the underlying records are sufficiently disaggregated and it is possible to identify what each asset recognised in the Statement of Accounts relates to; • Reviewing and challenging the useful economic lives used by the Council, including obtaining supporting documentation to support the lives used and comparing the lives to the expected lives as included in the CIPFA bulletin; and • Reviewing the disclosures included in the revised Statement of Accounts to ensure they are in line with the requirements of the CIPFA Code update, CIPFA Bulletin and the Statutory Instrument.
Status	At the time of writing this report, we have identified one issue as part of our audit procedures. This relates to the inclusion of trams in infrastructure assets historically, when per the CIPFA Code these should be classified as vehicles, plant and equipment. As this is a material historic issue a prior year adjustment is necessary. The revised Statement of Accounts has included a separate disclosure for prior year adjustments, which we are currently in the process of reviewing. We will provide an update to the Audit Committee on 27 July 2023. Further details can be viewed on page 34. No further matters have been identified. However, we have not finalised the procedures set out above and will provide the Audit Committee with a verbal update on 27 July 2023.

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; and
- 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 in our audit opinion.

Our work in relation to the other significant risks of weakness is still ongoing and we will provide an update to the Audit Committee on 27 July 2023.

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
Review of Statement of Accounts	**Finding** – A number of inconsistencies and casting errors were identified in the draft Statement of Accounts that were shared with the audit team. It is our expectation that these issues would be identified and amended before the Statement of Accounts are presented for audit. **Recommendation** - A detailed review of the Statement of Accounts and the accounting treatment for all significant transactions should be undertaken by senior members of the finance team to identify any issues before the Statement of Accounts are presented for audit.	TBC	High
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 draft 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	Medium
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	Medium

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
Accruals review meetings	**Finding** - As part of the year-end procedure to identify accruals, the finance team hold meetings with the Director of Resources to discuss the month 12 budget monitoring and the adjusted cash limited budget. This allows the finance team to identify any missed accruals. No evidence of these meetings, such as meeting minutes, are produced. **Recommendation** – The Council should look to maintain minutes of these discussions to provide evidence of this control taking place.	TBC	
Review of Property Valuers reports	**Finding** – On an annual basis the Council commissions a number of property valuers to provide valuations of the Council's property assets. We would expect officers at the Council to would review and challenge these reports when they are received. However, we have not identified any evidence of this review taking place. **Recommendation** – Officers should review and challenge all property valuation reports when received before they are added to the Statement of Accounts.	TBC	
Long term debtor – signed loan agreements	**Finding** - We have identified that the loan agreements between the Council and its subsidiary companies have not been signed. It should be noted that both the Council and the subsidiaries are aware of the terms of the loan agreements. **Recommendation** – In order to avoid potential legal challenge it is recommended that the Council ensure all agreements are signed going forward.	TBC	
Going concern assessment	**Finding** - We have identified that management do not prepare a formal going concern assessment on an annual basis. This is because the Council prepares the Statement of Accounts on a continuing provision of service basis, which means that only an act of parliament could result in the Council no longer being a going concern. It is however best practice for an assessment to be prepared. **Recommendation** – The Council should perform a going concern assessment on an annual basis.	TBC	

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	

Other significant findings

Internal control and risk management (continued)

Area	Observation	Management response	Priority
IT findings – Change Management	**Finding** - For multiple applications (CEDAR, Orchard and Selima) the user who develops and tests a change, also has the ability to implement the change into the live IT environment. Thereby there is no segregation of duties in place to ensure only appropriate changes to the systems are implemented. **Recommendation** – The Council should look to restrict the access of individuals who can develop and test changes, so that they are unable to also implement the change in the live IT environment.	TBC	
IT Findings – Password lockout	**Finding** - Password lockout thresholds are not enabled for Selima, Orchard and Cedar and are set below the recommended practise for Captia and Windows AD at 3 attempts. Further, lockout duration was not enabled for Cedar and Selima. There is therefore a risk that the accounts are more easily hacked as passwords are not enforced with recommended parameters. In mitigation, all systems meet the recommended parameters for Minimum length. In addition, Complexity is enforced on all passwords across the systems. **Recommendation** – The Council should consider introducing password lockout thresholds and lockout durations.	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 but subject to the successful clearance of the outstanding areas on page 3 of the report, we expect to issue an unmodified audit opinion.

Emphasis of matter and other matter paragraphs

We intend to include details on the emphasis of matter paragraph in relation to property valuations as set out on page 12 of this report.

There are no other matters we judge to be of fundamental importance in the financial statements that we consider it necessary to draw attention to in an emphasis of matter paragraph.

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. Currently, this will include the 2018/19 Ofsted findings as a significant weakness.

We will report our final Value for Money conclusions as part of our Auditor's Annual Report and Audit Certificate.

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 have completed the following: • Assessed whether the Narrative Report has been prepared in accordance with CIPFA guidance; and • Reviewed 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 suggested a number of minor changes to the Narrative Report. It is our understanding that these changes have been made by Officers. We are currently reviewing the revised Narrative Report to ensure that all expected changes have been made and we will verbally update the Audit Committee on 27 July 2023 after we have completed our review of the revised Narrative Report.
Annual Governance Statement	The Annual Governance Statement reports that governance arrangements provide assurance, are adequate and are operating effectively.	We have completed the following: • Assessed 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 suggested a number of minor changes to the Annual Governance Statement. It is our understanding that these changes have been made by Officers. We are currently reviewing the revised Annual Governance Statement to ensure that all expected changes have been made and we will verbally update the Audit Committee on 27 July 2023 after we have completed our review of the revised Annual Governance Statement.

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.

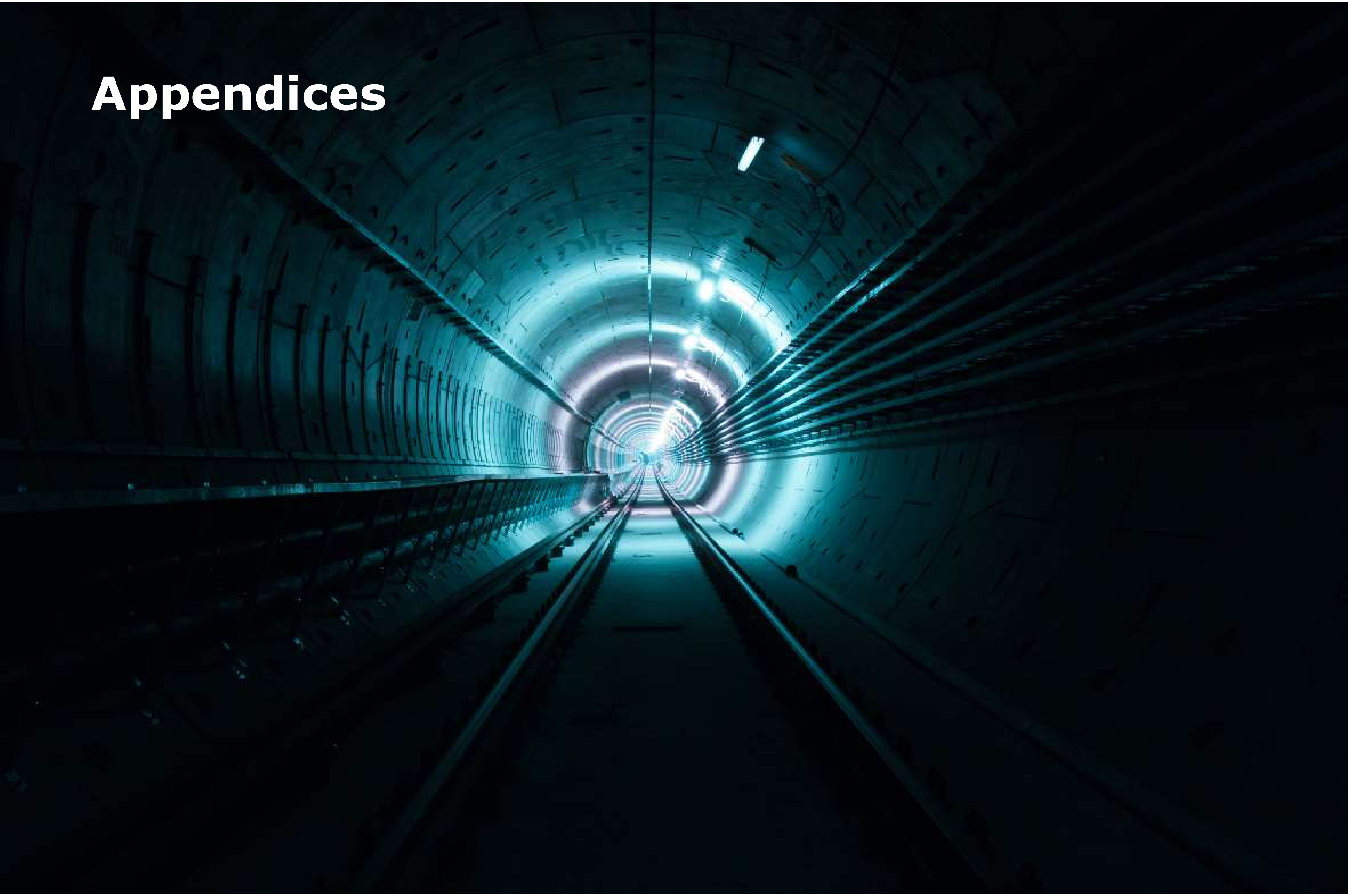
We welcome the opportunity to discuss our report with you and receive your feedback.

Deloitte LLP

Deloitte LLP

Newcastle upon Tyne| 18 July 2023

Appendices



Audit adjustments

Uncorrected misstatements

The following misstatements have been identified, which have not been corrected by management. We 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						
Assets not depreciated in first year of use	[1]	1.0	-	(1.0)	-	-
Valuation of Council owned car parks	[2]	3.6	-	(3.6)	-	-
Valuation of Houndshill Shopping Centre	[3]	(1.4)	-	1.4	-	-
Impact of Goodwin pension ruling	[4]	-	1.0	(1.0)	-	-
Total		**3.2**	**1.0**	**(4.2)**	**-**	**-**

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

Audit adjustments (continued)

Uncorrected 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] Assets not depreciated in first year of use	The Council does not depreciate assets in the first year after acquisition. We have calculated the expected impact of this to be the understatement of depreciation by £1m.
[2] PPE - Car park valuations	The Council revalued six car parks in year, the total value at 31 March 2021 of these was £17.8m. We engaged our internal property valuation specialists to review the car park valuations which were prepared by the Council's internal valuers. Our specialists challenged the valuation approach adopted by the Council's valuers and concluded that the latest Royal Institution of Chartered Surveyors guidance, in relation to the valuation of car parks had not been applied. The impact of applying the guidance is that the car park valuations at 31 March 2021 would decrease by £3.6m, to £14.2m.
[3] PPE - Houndshill valuation	The Council have engaged Jones Lang LaSalle (JLL) to value the Houndshill Shopping Centre as at the 31 March 2021. JLL's final valuation report values the asset at £29.4m. However the asset has been included within the Statement of Accounts at £28.0m. This is because the Council received a draft valuation for Houndshill of £28.0m, which was used as part of the production of the Statement of Accounts. Due to the increase in valuation between the draft and final reports being immaterial, the Council made the decision not to amend the Statement of Accounts.
[4] Pension liability - Goodwin	The Goodwin ruling relates to a legal challenge made against the Government in respect of unequitable benefits for male spouses of female members of pension schemes (in respect of service earned before 1998). As part of the Council's pension valuation, this ruling has not been taken into consideration, and therefore no allowance for this ruling has been included in the Council's Statement of Accounts. We have engaged our actuarial specialists, who have estimated that the inclusion of an allowance for the Goodwin ruling would increase the Council's pension liability by £1.0m.

Audit adjustments (continued)

Uncorrected disclosures misstatements

Disclosure misstatements

The following uncorrected disclosure misstatements have been identified up to the date of this report which we request that you ask management to correct as required by ISAs (UK).

Disclosure	Finding
Note 14. Property, Plant and Equipment – Houndshill Shopping Centre depreciation	Our testing identified that the Houndshill Shopping Centre was not depreciated in year. The depreciation charge for the year should have been £0.8m. However, as the Shopping Centre has been fully revalued at the year end, there is no impact on the CIES of not including this depreciation charge, as this charge would be written out of the CIES at 31 March 2021. As a result, we have included this a disclosure only finding as the charge should be reflected in note 14.
Note 19. Financial Instruments	As part of our accruals testing, we identified that the Council had accrued for several invoices that were received pre year end. We would normally expect these to be included in trade creditors at the year end rather than being accrued for. Accruals have been correctly excluded by the Council from note 19, as they do not meet the definition of a financial instrument. However, as the Council has actually received the invoices for these accruals, we believe they should not have been excluded. As we have only tested a sample we have calculated an expected error, which totals £1m. Therefore based on this calculation we would expect the creditors value in note 19 to increase by £1m.
Housing Revenue Account (HRA) – Note 9. Rent Arrears	The rent arrears value disclosed in note 9 is £0.9m. However, based on the testing we have performed we have identified that the actual HRA debtors at the year end is £0.2m.

Audit adjustments (continued)
Prior year adjustments identified – impacting on Primary Statements

The following misstatements have been identified, which have resulted in management posting entries to correct previous financial years.

Prior year adjustments at 1 April 2019

		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
Prior year adjustments – Impact on 1 April 2019						
Long term investment valuations	[1]	-	-	(11.6)	-	11.6
Removal of Voluntary Aided and Voluntary Controlled Schools	[2]	-	-	(4.1)	-	4.1
Total		**-**	**-**	**(15.7)**	**-**	**15.7**

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

Audit adjustments (continued)

Prior year adjustments identified – impacting on Primary Statements

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] Long term investment valuations	The Council holds a number of long term investments in subsidiary companies, which are fully consolidated into the Council's Group Accounts. In prior years, a number of the investments have been held at market value, whilst some of the investments have been held at cost. However, per the CIPFA Code the basis of valuation should be consistent across the whole class of asset. The audit team challenged the Council regarding the valuation inconsistency between investments and the Council agreed to amend the financial statements to ensure the valuation basis was consistent. The decision to value the investments at cost was made due to the nature of the investments held and the fact that they are not held for capital appreciation purposes, but instead to support the Council's wider regeneration objectives. As a result of the change being material, it was necessary for the Council to amend the opening position at the earliest possible date, which is 1 April 2019, to reflect that a similar situation was in place in previous years.
[2] Removal of Voluntary Aided and Voluntary Controlled Schools	As part of our audit of the Council's Property, Plant and Equipment balance, we have reviewed and challenged the Council's treatment of School's in detail. This review identified that in the draft Statement of Accounts the Council held two Voluntary aided/controlled Schools on the Council's Balance Sheet. The total value of these assets was £4.1m at 1 April 2019. As part of our procedures we obtained the land registry deeds for these assets, which confirmed that the assets were not owned by the Council. We have therefore agreed with the Council that these assets should not remain on the Council's Balance Sheet.

Audit adjustments (continued)

Prior year adjustments - Disclosures

Disclosure misstatements

The following corrected prior year adjustment disclosure misstatements have been identified, which have been updated by the Council in the revised Statement of Accounts.

Disclosure	Finding
Note 14. Property, Plant and Equipment – Infrastructure Assets	During our review of assets included in the infrastructure assets balance, we identified that the Council had classified trams as Infrastructure Assets. However, based on the definitions included in the CIPFA Code these should have instead been classified as Vehicles, Plant and Equipment. The total value of trams included in Infrastructure Assets at 1 April 2019 was £27.2m. This has now been transferred into Vehicles, Plant and Equipment in the revised Statement of Accounts. There has been no impact on depreciation of this reclassification.
Note 45. Capital Expenditure and Capital Financing	The Council is required to disclose its Capital Financing Requirement (CFR) in the Statement of Accounts. This is the the amount of capital spending that has not yet been financed by capital receipts, capital grants or contributions from revenue income. As part of our audit procedures, we performed a reconciliation between the CFR disclosed in note 45 and other areas of the Statement of Accounts. This reconciliation identified a difference of £109.4m. Officers have reviewed this difference and identified that this is due to draft figures being used in previous years to calculate the CFR rather than the final audited position. A prior year adjustment has therefore been posted which increases the 2019/20 opening CFR to £519.3m.

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	-	-
Creditors – Debit balances in creditors ledger	[3]	-	-	-	-	-
CIES – Manual adjustment	[4]	-	-	-	-	-
Property, Plant and Equipment – Asset held at historic cost	[5]	0.6	-	(0.6)	-	-
Reclassification of long term debtors to short term debtors	[6]	-	-	-	-	-
Revaluation Reserve – removal of negative reserves and assets no longer owned by the Council	[7]	-	-	-	-	-
Property, Plant and Equipment – Winter Gardens Impairment	[8]	11.3	-	(11.3)	-	-
Total		**6.2**	**-**	**17.0**	**-**	**(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 Statement of Accounts, 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 31 March 2021. 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] 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.

Audit adjustments (continued)

Corrected misstatements (continued)

Title	Finding
[4] 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 have reviewed and tested 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 has 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.
[5] Property, Plant and Equipment – Asset held at historic cost	In line with the CIPFA Code, the Council operates a rolling property valuations programme. This requires all land and buildings to be revalued at least once in every four year period. During our testing we identified an asset with a net book value of £0.6m that was held at historic cost and therefore had not been revalued. The Council performed a review of this asset and identified that it was in fact a duplicate of another asset held on the Council's Balance Sheet that was included in the rolling valuations programme. The duplicate asset has now been removed from the Council's Balance Sheet.
[6] Reclassification of long term debtors to short term debtors	The long term debtors held by the Council mainly relate to loans provided by the Council to businesses operating within the Blackpool area. As part of our testing, we identified that elements of these loans would be repaid within a 12 month period following 31 March 2021. We would therefore expect these to be classified as short term rather than long term debtors. The total value of the short term elements included in long term debtors was £5.7m. This is a reclassification within the Balance Sheet and therefore it does not have an impact on the net assets value that is disclosed.
[7] Revaluation Reserve – removal of negative reserves and assets no longer owned by the Council	We identified a net balance of £3.9m included in the revaluation reserve that relates to assets with negative revaluation reserve balances and assets that have been disposed of by the Council but where a reserve balance is still held. An asset can not have a negative revaluation reserve and on disposal all assets should be removed from the revaluation reserve. The correcting entry for this adjustment is to reduce the revaluation reserve by £3.9m and increase the Capital Adjustment Account by the same amount.

Audit adjustments (continued)

Corrected misstatements (continued)

Title	Finding
[8] Property, Plant and Equipment – Winter Gardens Impairment	At 31 March 2021, the Winter Gardens was included in the draft Statement of Accounts in Assets Under Construction at a value of £21m. After the Winter Gardens became operational in 2021/22, the Council obtained a valuation of the asset from a qualified property valuer. This valuation saw the assets value reduce to £10m. We therefore challenged the Council as to whether the value at 31 March 2021 was still appropriate or whether an impairment charge was required. The Council have subsequently performed a detailed impairment review of the asset as at 31 March 2021. This concluded that the value of the asset in Assets under Construction was overstated and an impairment of £11m has been included in the revised Statement of Accounts.

Audit adjustments (continued)

Corrected disclosure misstatements

Disclosure misstatements

The following disclosure misstatements, which are above our reporting threshold of £0.5m, were identified in the draft Statement of Accounts that were presented for audit. These have all been amended in the updated Statement of Accounts.

Disclosure	Finding
Note 7. Material Items of Income and Expenditure	The revaluation of the Houndshill Shopping Centre at 31 March 2021, identified a downwards revaluation of £11.6m. This value was correctly recognized in the CIES by the Council, but as this is a material item of expenditure per the CIPFA Code this should have also been separately disclosed in this note.
Note 14. Property, Plant and Equipment – Revaluation disclosure	The CIPFA Code requires Councils to disclose the value of assets revalued in every year of the property revaluation rolling programme. The Council have correctly included this disclosure in note 14. However, when testing the draft Statement of Accounts disclosure we identified that the values disclosed did not agree to underlying records.
Note 14. Property, Plant and Equipment - Capital Commitments	Per the CIPFA Code, the Council is required to disclose the amount of contractual commitments for the acquisition of property, plant and equipment that the Council has entered for the following year. The draft Statement of Accounts disclosed the capital commitments value as £44.1m. After completing our testing we identified that this should have been disclosed as £31.6m.
Note 19. Financial Instruments	Three disclosure errors were identified during our testing of note 19. These are set out below: • Cash and cash equivalents of £3.4m were not included in the draft disclosure. • Trade debtors value of £59.9m in the draft disclosure, included items that do not meet the definition of a financial instrument. • Non financial liabilities value of £71.9m in the draft disclosure, included items that do not meet the definition of a financial instrument.

Audit adjustments (continued)

Corrected disclosure misstatements (continued)

Disclosure	Finding
Note 37. Agency Services	In the draft Statement of Accounts, the Council did not disclose the £109.4m of Covid-19 grant income, where the Council had received income on behalf of other organisations. This has now been amended in the revised Statement of Accounts.
Note 38. Pooled Budgets	Our testing identified that the funding provided to the pooled budget from both Blackpool Council and Blackpool CCG, as well as the expenditure met by Blackpool CCG on behalf of the pooled budget was incorrectly disclosed in the note. We have set out below the values disclosed in the draft Statement of Accounts and the revised values that are now included:
Note 40. Exit Packages	Per the CIPFA Code, exit packages should be disclosed in the financial year that the Council becomes demonstrably committed to making the payment. As a result, we would expect the Council to disclose exit packages when they enter into a signed agreement with the employee rather than when the payment is made. However, during our testing we identified five exit packages, totaling £58k that were agreed in 2020/21 but were not included in the disclosure.

	Draft SoA value	**Revised SoA value**
Blackpool Council funding	£13,683,000	£15,183,000
Blackpool CCG funding	£27,956,000	£18,456,000
Blackpool CCG expenditure	£16,219,000	£8,219,000

Audit adjustments (continued)

Corrected disclosure misstatements (continued)

Disclosure	Finding
Note 43. Grant Income	Three presentational errors were identified in the draft grant income note. These errors occurred due to the Council preparing the disclosure manually rather than relying on underlying system reports. This resulted in the full grant amounts being included in grant income credited to services, where portions of the grant had also been correctly included in revenue grants received in advance. The errors related to the following grants: **Draft SoA value** / **Revised SoA value** Green Homes Grant: 2,000,000 / nil Contain Outbreak Management Fund: 5,997,000 / 1,230,000 Discretionary Business Support: 8,969,000 / 3,277,000
Note 49. Defined Benefit Pension Schemes – Basis for estimating liabilities	Per the CIPFA Code it is a requirement for authorities to produce a sensitivity analysis that demonstrates to the user of the accounts the impact of adjusting the pension assumptions used by the actuary. The Council has correctly disclosed this information, however we identified that the Council had incorrectly calculated the monetary impact of increasing members life expectancy by one year as £3.1m in the draft Statement of Accounts. This should have instead been £31.4m.
Housing Revenue Account (HRA) – Note 2. Dwelling Rents	In note 2 of the HRA in the draft Statement of Accounts, the Council disclosed the total valuation of the housing stock held by the Council. The value disclosed was £118.7m, which did not agree to the year end valuation. This has now been correctly updated to £121.4m.
Collection Fund Statement	In the draft Statement of Accounts, Council Tax income was disclosed as £69.8m. However, after performing our testing we identified that this was understated by £4.1m as write offs of uncollectable amounts had been incorrectly included in this value. The revised Council Tax income value is £73.9m.

Grant	Draft SoA value	Revised SoA value
Green Homes Grant	2,000,000	nil
Contain Outbreak Management Fund	5,997,000	1,230,000
Discretionary Business Support	8,969,000	3,277,000

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	84,818	84,818
Additional fee for prior year audit [1]*	-	43,904
Additional fee for changes in the current year [2]*	TBC	-
Total audit	84,818	128,722
Teachers' Pensions certification fees	4,000	4,000
Pooling of Housing Capital Receipts certification fees	5,000	4,000
Housing benefits certification fees	-	10,250
Total assurance services	9,000	18,250
Total fees	TBC	146,972

[1] During the audit in 2019/20, we were required to complete additional, unforeseen procedures in a number of areas, including property valuations, work around the pension transfer between Blackpool Transport Services and the Council, Covid-19 additional procedures and the recoverability of long term debtors. These procedures resulted in a significant amount of additional time being required on the audit. We have discussed these additional procedures and the corresponding fee implications with the Director of Resources and have communicated an additional fee of £43,904 is required.

2] During the 2020/21 audit we have also been required to complete additional procedures that are not taken into account in the scale fee of £84,818 above. Following the completion of the audit we will discuss the fee implications with the Director of Resources and present our fee proposal back to the Audit Committee.

* All additional fees are subject to agreement with the PSAA.

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