



PUBLIC SECTOR

## **Annual Audit Letter 2008/09**

Blackpool Council  
November 2009

AUDIT

# Content

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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 has issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document.

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.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Trevor Rees who is the engagement partner to the Authority, telephone 0161 246 4063, email [trevor.rees@kpmg.co.uk](mailto:trevor.rees@kpmg.co.uk) who will try to resolve your complaint. Trevor is also the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Investigation Officer, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by e-mail to: [complaints@audit-commission.gov.uk](mailto:complaints@audit-commission.gov.uk). Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421

## Executive Summary

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### Purpose

This Annual Audit Letter (the letter) summarises the key issues arising from our 2008/09 audit at Blackpool Council (the Council). Although this letter is addressed to the Members of the Council, it is also intended to communicate these issues to key external stakeholders, including members of the public. The letter will also be published on the Audit Commission website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk). It is the responsibility of the Council to publish the letter on its website at [www.blackpool.gov.uk](http://www.blackpool.gov.uk). Throughout our audit we have highlighted areas of good performance and also provided recommendations to help you improve performance.

### Scope of our audit

The statutory responsibilities and powers of appointed auditors are set out in the Audit Commission Act 1998. Our main responsibility is to carry out an audit that meets the requirements of the Audit Commission's *Code of Audit Practice* (the *Code*) which requires us to review and report on your:

- *use of resources* - whether you have made proper arrangements for securing economy, efficiency and effectiveness ('value for money') in your use of resources (UoR). Our work in this area is summarised in section 3; and
- *accounts* – the Financial Statements and the Annual Governance Statement, summarised in section 4.

### Key Messages

The key areas which we draw to your attention to are:

- Our use of resources assessment, the first under the Audit Commission's new UoR regime, demonstrated that the Council has got sound processes in place in relation to each of the KLOE themes. The Council now needs to demonstrate the achievement of outcomes as a result of these processes which are fully understood. The Council has been assessed as level 2 (performing adequately) against each of the themes.
- The audit of the Council's financial statements went very smoothly in 2009/10. A number of amendments were made to the financial statements as a result of our audit test work. These related primarily to capital transactions and had no impact on the level of general fund reserves. All errors identified were corrected and there were no unadjusted audit differences. We issued unqualified audit opinions on the Council's financial statements and on its arrangements for securing value for money conclusion in 2008/09.

### Fees

Our fee for the audit is £244,000 which is in line with the fee agreed with you in our audit plan.

### Future Issues

- From 2010/11 local government bodies are required to prepare their financial statements under International Financial Reporting Standards (IFRS), which contain a number of significant differences from the current financial reporting regime. The Council has started the transition process, although a considerable amount of work is required to be completed before the full impact of IFRS accounting arrangements can be assessed.
- Those Local Authorities in the Carbon Reduction Commitment scheme will need to start reporting their usage from 1 April 2010 and recording these transactions within their financial statements with effect from 1 April 2011. There will be implications for cash flow, energy bills, and investment decisions and these could be significant. There are huge opportunities in addressing sustainability with clear cost reduction opportunities from saving energy which will become more and more significant over time. There are also opportunities to use the sustainability agenda to support the achievement of business challenges. It puts carbon reduction firmly amongst the priority areas for local authorities.
- Sustainability performance - The Treasury is developing guidance for 2010/2011 which will require all public sector bodies to report publicly on sustainability performance in annual reports. CIPFA is in discussion with the Treasury about when and in what form this requirement will be formalised for local authorities. The reported information will be subject to audit and scrutiny. Sustainability reporting will be difficult to implement and many organisations will need to act quickly to implement new information gathering processes. Sustainability issues are also consider as part of the Use of Resources assessment within the Natural Resources element of the Managing Resources theme.

## Executive Summary (continued)

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### Future Issues (continued)

- Public expenditure forecasts indicate that there will be significant pressure on local authorities' funding in the medium term. Future financial settlements will be tight, increasing the need for local authorities to have comprehensive efficiency programmes supported by sound financial management arrangements. It is likely that bold measures will be required to generate sufficient savings to mitigate the impact on priority services. More than ever before, officers and Members will need to focus on identifying these significant savings measures and ensuring that robust arrangements are in place to monitor their delivery to ensure they are realised. The Council has a good track record in delivering such efficiency and savings targets. It will, however, be necessary to revisit and update the Council's plans to ensure that you can deliver the levels of savings required for the future.

### Acknowledgement

This has been KPMG's second year as the Council's external auditor following our appointment by the Audit Commission in 2007. We would like to thank the Council's management and staff for the help, support and co-operation they have provided throughout our audit. We recently agreed our audit plan for our 2009/10 audit and look forward to working closely with the Council in the coming year to deliver this programme of work.

## Comprehensive Area Assessment

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### Assessment Framework

The Audit Commission and the other public service inspectorates introduced a new assessment framework during 2009, Comprehensive Area Assessment (CAA). CAA is a new way of assessing local public services in England. It examines how well councils are working together with other public bodies to meet the needs of the people they serve. It's a joint assessment made by a group of six independent watchdogs. Assessments will be made publicly available every year and will provide an annual snapshot of quality of life in the area. The first results will appear on a new 'Oneplace' website.

Our work in this area is being led by the local Comprehensive Area Assessment Lead (CAAL). The CAAL has shared draft findings with officers and he is due to formally report in December 2009. Alongside the CAA report, we will issue our organisational assessment which combines our judgements on your use of resources and managing performance assessments.

Any issues arising will be discussed with you and planned into future years audit and assessment activity.

### Financial Standing

The last year has seen the country enter a significant economic recession. The consequence locally, is an increasing demand for public services and the likelihood of reduced levels of central government funding. Together, these provide a significant challenge for local councils as they seek to continue to provide services to local residents, whilst maintaining a sound financial position.

The Council has taken a number of steps to strengthen its financial position. A revised medium term financial strategy has been approved which more clearly defines the minimum acceptable level of reserves and assigns financial values to potential risks the Council may face.

The Council is also in the process of introducing initiatives to try and protect the local economy, such as mortgages to help stimulate the local housing market and the availability of business loans.

Blackpool Council had no investments in Icelandic financial institutions which suffered at the start of the economic downturn. The Council has a robust investment policy which limits exposure to higher risk financial organisations.

The impacts of the recession will continue to present a challenge to the Council in the coming financial year. We will continue to monitor the Council's response and actions in this key area.

## Use of resources

The main elements of our use of resources work are:

- *Use of Resources* - from 2008/09, the Audit Commission introduced a new UoR assessment framework which forms part of the Comprehensive Area Assessment (CAA). This replaced the former UoR assessment which was predominantly focused on processes – the scope of the new regime is wider as it also considers whether public bodies have achieved significant and sustainable outcomes. UoR assessment comprises three themes which consider:
  - Managing finances – focusing on sound and strategic financial management;
  - Governing the business – focusing on strategic commissioning and good governance; and
  - Managing resources – focusing on the management of natural resources, assets and people.
- *Value for money conclusion* – we issue a conclusion on whether we are satisfied that you have put in place proper arrangements for securing economy, efficiency and effectiveness in your use of resources. This is based on the UoR assessment.
- *Specific risk based work* – we carry out specific reviews of issues faced by the Council based on a risk assessment and through discussions with management. Our initial risk assessment was included in our Annual Audit and Inspection Plan 2008/09. We identified the following areas for further review:
  - Responding to the recession;
  - Budget position; and
  - Mental health commissioning.

The findings from this work are summarised below.

Element of work	Key findings								
<b>Use of Resources</b>	<p>Our assessment of Blackpool Council against the three themes resulted in the following scores on a scale of one (inadequate) to four (performing strongly):</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="background-color: #003366; color: white;">Area</th> <th style="background-color: #003366; color: white;">Score</th> </tr> </thead> <tbody> <tr> <td>Managing money</td> <td style="text-align: center;">2</td> </tr> <tr> <td>Governing the business</td> <td style="text-align: center;">2</td> </tr> <tr> <td>Managing resources</td> <td style="text-align: center;">2</td> </tr> </tbody> </table> <p>These scores build on last year's UoR assessment when the Council achieved an overall score of level 3 (performing well). It should be noted that direct comparisons cannot be made between the previous UoR scores and those awarded this year due to the differences in each assessment framework.</p> <p>In achieving a score of level 2, the Council has been able to prove that it has adequate arrangements in place to secure economy, efficiency and effectiveness from its use of resources. The Council has sound processes in place across all of the KLOE themes and must now concentrate on providing evidence to demonstrate outcomes are being achieved. These should be clearly linked to underlying processes, contribute to the achievement of corporate objectives and be fully understood. The Council is in the process of preparing an action plan and gathering evidence which will be submitted as part of the 2009/10 assessment.</p>	Area	Score	Managing money	2	Governing the business	2	Managing resources	2
Area	Score								
Managing money	2								
Governing the business	2								
Managing resources	2								
<b>Value for money conclusion</b>	<p>We issued an unqualified value for money conclusion for 2008/09. This opinion was informed by the work that we have completed across the use of resources KLOE themes.</p> <p>This means that we are satisfied that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in your use of resources.</p>								
<b>Specific risk based reviews</b>	<p>In discussion with officers we have agreed to combine the work planned in respect of the Council's response to the recession and the budget position with the work outlined in the 2009/10 audit plan. We have continued our dialogue with officers during 2008/09 to maintain our understanding of the progress that the Council has made in these areas. We can confirm that there are no issues arising so far which have adversely impacted on our value for money conclusion.</p>								

## Audit opinion

We issued an unqualified opinion on your accounts on 29th September 2009. This means that we believe the accounts give a true and fair view of the financial affairs of the Council and of the income and expenditure recorded during the year.

Before we give our opinion on the accounts, we are required to report to 'those charged with governance' any significant matters identified. We did this in our report to the Audit Committee on the 29th September 2009 and the key issues are summarised here.

## Accounts production, adjustments to the accounts and audit recommendations

- We received a complete set of draft accounts on the 30th June 2009 deadline for approval by those charged with governance. A supplementary paper and commentary was provided to members to discuss key variances and changes in accounting treatment.
- The working paper files which support the accounts were provided in line with the agreed timescales and the content was thorough and of a good standard. In particular, working papers to support the housing revenue account showed a marked improvement over the previous year.
- Within our ISA 260 'report to those charged with governance' we reported four amendments to the financial statements as a result of our audit test work. These primarily related to capital transactions and had no impact on the level of general fund reserves. Errors identified were all corrected and there were no unadjusted audit differences. A number of disclosure changes and formatting adjustments were also made to the financial statements to ensure internal consistency and correct classification.
- We reported four audit recommendations of which two were considered high priority. These recommendations are intended to highlight areas where we believe processes and procedures can be improved and which will contribute to improving the production of accurate financial information. Although these recommendations have been agreed with management we have currently not received formal responses or intended actions to address these areas for development.

There were no other issues raised for the attention of the Audit Committee.

## International Financial Reporting Standards

From 2010/11 local government bodies are required to prepare their financial statements under International Financial Reporting Standards (IFRS). There is a transitional process that needs to be followed, starting with assessing the areas where IFRS will require re-statement of prior year financial statements in order to comply with the new standards. The Council will need to effectively manage this transition, ensuring that its financial systems and procedures have been reviewed and updated as necessary and that finance staff receive necessary training in order to continue its good track record of producing timely, complete and materially accurate financial statements.

Areas where particular focus will be required include:

- Leases – Collation of records for all current lease contracts and establishing whether these should be classified as operating or finance leases.
- Private Finance Initiative (PFI) – Obtaining models that the Council will use to model the accounting impact of their PFI schemes and generate the appropriate accounting entries.
- Property Plant and Equipment – Ensuring procedures are in place to revalue assets as and when required. The Council will need to agree whether valuations for component assets will be provided through the formal valuation process or by using internal information as and when valuations are completed.
- Employee benefits – Establishing an acceptable methodology which is agreed with the Council's auditors for calculating employee benefit accruals in relation to untaken annual leave, flexi-time and time off in lieu. This should be applied to calculate an opening accrual as at April 2009.

The Council has appointed Baker Tilly in an advisory capacity in relation to IFRS. A presentation has been given to the Audit Committee and the Council has set up an IFRS project board to manage the conversion process. We will maintain our dialogue with the Council ensuring that its plans are sufficiently progressed to meet the expected reported requirements.