

# Annual governance report

Blackburn with Darwen Borough Council

Audit 2011/12



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# Key messages

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**This report summarises the findings from the 2011/12 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.**

## Financial statements

- 1 As at 10 September 2012 I expect to issue an unqualified audit opinion. I also expect to issue a report stating that your Whole of Government Accounts (WGA) consolidation pack is consistent with the statutory financial statements.
- 2 The financial statements were prepared to a good standard and were available for audit by the deadline of 30 June 2012. Working papers to support the financial statements were of a good standard and audit queries were answered on a timely basis.
- 3 Two material adjustments have been made to the financial statements following the audit as set out on page 5.

## Value for money (VFM)

- 4 I expect to conclude that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources.
- 5 The Council has robust systems and processes to manage financial risks and opportunities, and to secure a stable financial position. The Medium Term Financial Strategy (MTFS) recognises the financial challenges facing the Council, with budgets and savings plans identified for the medium and longer term.
- 6 The Council is prioritising its resources within tighter budgets and achieving cost reductions. The Council has successfully delivered significant savings over the past two years and plans are in place to deliver further savings in 2012/13.

# Before I give my opinion and conclusion

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**My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit to identify all matters that might be relevant to you.**

## Independence

**7** I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence.

**8** I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

**9** The Audit Commission's Audit Practice has not undertaken any non-audit work for the Authority during 2011/12.

## I ask the Audit Committee to:

- take note of the adjustments to the financial statements included in this report (appendices 2 and 3);
- approve the letter of representation (appendix 4), on behalf of the Authority before I issue my opinion and conclusion; and
- agree your response to the proposed action plan (appendix 6).

# Financial statements

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**The Authority's financial statements and annual governance statement are important means by which the Authority accounts for its stewardship of public funds. As elected Members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.**

## Opinion on the financial statements

**10** Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

**11** The financial statements were prepared to a good standard and were available for audit by the deadline of 30 June 2012. Working papers to support the financial statements were of a good standard and audit queries were answered on a timely basis.

## Corrected errors

**12** Two material adjustments have been made to the financial statements following the audit. These are summarised in appendix 3.

**13** The lease for the Market Hall has been reclassified from a finance lease to an operating lease. Amendments have been made to the financial statements to remove the asset and liability from the balance sheet. The impact of the amendment is to reduce both the assets and liabilities of the Council by £11.7m. The lease was accounted for as an operating lease in the 2010/11 financial statements but in 2011/12 the accounting treatment was changed to a finance lease. During the course of my audit, officers have sought advice from the valuer and reassessed the classification of the lease. This resulted in its reclassification back to an operating lease. The amendment does not have an impact on the net assets of the Council.

**14** Property, plant and equipment additions of £12.1m relating to the Market Hall and the Data Centre have been reclassified from Land and Buildings to Vehicles, Plant, Furniture and Equipment. Testing of expenditure on additions identified that this expenditure relates to fixtures and fittings, and consequently the additions of £12.1m have been reclassified. The amendment does not have any impact on the overall assets and liabilities of the Council.

## Uncorrected errors

- 15** Three errors were identified in the financial statements that Management have decided not to amend. These are summarised in appendix 2.
- 16** The Council has incorrectly accounted for the land relating to the Pleckgate PFI scheme. It has been treated as a disposal and subsequent addition, rather than a revaluation. As a result, disposals in note 12 are overstated by £300k and revaluation losses in note 12 are understated by £300k. However, the net book value of land and buildings relating to the Pleckgate PFI scheme is correctly stated and there is no impact on the value included in the Balance Sheet at 31 March 2012.
- 17** The Council's accounting policy for componentisation of assets states that components are only recognised where they represent at least 20% of the overall value of the asset. However, in practice, components are recognised below this level and depreciation is being charged separately on the components. This results in the depreciation charge for these assets being an estimated £270k higher than it would be if the accounting policy was being applied as the Council intends, although there is no impact on the overall financial position of the Council. This issue was also identified and reported to you in 2010/11.
- 18** Testing of the existence of property, plant and equipment identified some items of equipment that are either obsolete or have been disposed of. The items are fully depreciated with a net book value of nil but are still included on the asset register and in note 12 to the balance sheet. As the items are fully depreciated there is no impact on the balance sheet but both the gross cost/valuation and accumulated depreciation in note 12 are overstated by £788k.

## Significant risks and my findings

19 I reported to you in my January 2012 Audit Plan the significant risks that I identified relevant to my audit of your financial statements. In Table 1 I report to you my findings against each of these risks.

Table 1: Risks and findings

Risk	Finding
<p><b>Private Finance Initiative</b></p> <p>The Building Schools for the Future (BSF) project involves the building, remodelling and operation of a number of schools in Blackburn with Darwen. The programme includes three schools funded under the Private Finance Initiative (PFI). One of these schools, Pleckgate School, became operational in 2011/12.</p> <p>The PFI contract is material for the Council and falls within the scope of IFRIC 12.</p>	<p>I have undertaken a number of substantive procedures to review and test the accounting entries and disclosures for the operational PFI scheme (Pleckgate), and to review and test the disclosures for the non-operational PFI scheme (Witton Park/Central Blackburn).</p> <p>My testing has concluded that the accounting entries for the operational PFI scheme are materially correct. My review identified some errors and omissions in the disclosures for the PFI schemes and amendments have been agreed with officers to ensure that full disclosure is made.</p>
<p><b>New Asset Management System</b></p> <p>The Council implemented a new Asset Management system before the end of the 2011/12 financial year. There was a risk that asset management information may not have been migrated completely or accurately from the old asset management system to the new asset management system.</p>	<p>I have undertaken substantive procedures to review and test the transfer of data from the old asset register to the new asset management system. This testing concluded that data has been transferred completely and accurately.</p> <p>I have identified two other issues relating to the valuation of assets and maintenance of the asset register as set out in table 2 below.</p>
<p><b>IAS 19 Pensions Liability</b></p> <p>The Council has a net pensions liability as at 31 March 2012 of £182.7million. Liabilities reflect estimated figures that involve a high degree of subjectivity and small changes in the assumptions used can have a material impact on the financial statements.</p>	<p>I have undertaken substantive procedures to review and test the IAS19 accounting entries and disclosures. This testing has concluded that the accounting entries and disclosures are materially correct.</p>

## Significant weaknesses in internal control

**20** It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

**21** I have tested the controls of the Authority only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. I have reviewed the Annual Governance Statement and can confirm that:

- it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- it is consistent with other information that I am aware of from my audit of the financial statements.

**22** I have not identified any significant weaknesses in internal control during the audit that are relevant to preparing the financial statements.

## Other matters

**23** I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Authority's financial reporting process including the following.

- Qualitative aspects of your accounting practices
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions.
- Other audit matters of governance interest

Table 2: **Other matters**

Issue	Finding
Monitoring of PFI contracts	<p>The Building Schools for the Future (BSF) project involves the building, remodelling and operation of a number of schools in Blackburn with Darwen. The programme includes three schools funded under the Private Finance Initiative (PFI). One of these schools, Pleckgate School, became operational in 2011/12. The other two schools (Witton Park and Central Blackburn) will become operational during 2012/13.</p> <p>The PFI contracts are material for the Council and fall within the scope of IFRIC 12. The Council accounts for the assets and liabilities of the schemes using an accounting model which is based on the lifetime costs of the scheme. The accounting model needs to be updated each year to reflect any changes to the scheme. The Council therefore needs to ensure that appropriate arrangements are in place to monitor the PFI contracts going forwards and ensure that any changes to the scheme are captured in the accounting model.</p>



Issue	Finding
Revaluation of property, plant and equipment	<p>International Accounting Standard 16 requires that property plant and equipment is re-valued with sufficient regularity to ensure that the carrying amount does not differ materially from fair value. The CIPFA Code of Practice on Local Authority Accounting specifies that revaluations should be carried out at intervals of no more than five years.</p> <p>Note 12 to the balance sheet includes an analysis of the latest date of valuation for the Council's land and buildings which are carried at fair value. This identifies that assets with a carrying value of £5.3m have not been re-valued within the last five years.</p>
Fixed Asset existence	<p>Testing of the existence of property, plant and equipment identified some items of equipment that are either obsolete or have been disposed of. The items are fully depreciated with a net book value of nil but are still included on the asset register and in note 12 to the balance sheet. As the items are fully depreciated there is no impact on the balance sheet but both the gross cost/valuation and accumulated depreciation in note 12 are overstated by £788k.</p> <p>Review of the asset register has identified that there are potentially a number of other items of equipment that are fully depreciated but, based on the age of the asset, look likely to be obsolete. The Council should ensure that the asset information held on the asset register is regularly reviewed and that any assets which have become obsolete or that have been disposed of are removed from the asset register and the accounts.</p>

Recommendation
<p><b>R1</b> Ensure that appropriate arrangements are in place to monitor the PFI contracts going forwards and ensure that any changes to the schemes are captured in the accounting model.</p>
<p><b>R2</b> Ensure that all land and buildings are subject to revaluation at intervals of no more than five years.</p>
<p><b>R3</b> Regularly review the asset register to ensure that any assets which have become obsolete or that have been disposed of are removed from the asset register and the accounts.</p>

## Whole of Government Accounts

**24** My work on your Whole of Government Accounts return is underway and I expect to report to the National Audit Office by 30 September. The extent of my review and the nature of my report are specified by the National Audit Office. On the basis of the work completed so far, I have no matters to report to you. However, if any such matters come to my attention as I complete the outstanding tests, I will provide a verbal update to the Committee.

# Value for money

**I am required to conclude whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is the value for money conclusion.**

**25** I assess your arrangements against the two criteria specified by the Commission. I have set out below my conclusion on the two criteria..

**26** I intend to issue an unqualified conclusion stating that the Authority has proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. I include my draft conclusion in Appendix 1.

Table 3: **Value for money conclusion criteria and my findings**

Criteria	Findings
<p><b>1. Financial resilience</b></p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2011/12:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>The Medium Term Financial Strategy (MTFS) recognises the financial challenges facing the Council and is clearly linked to the 2012/13 budget and savings programme. Budgets and savings plans have been set for the medium and longer term with resources set aside in reserves for 'invest to save' initiatives.</p> <p>The medium term risks and opportunities for the Council are identified in the MTFS along with headline modelling of the best, worst and likely scenarios resulting from future planned and potential changes. Work is ongoing to model and assess the impact of changes to business rates and Council Tax Benefit. Key assumptions are highlighted in the MTFS together with the financial risks associated with changes to these assumptions</p> <p>There are clear links in the MTFS to the Council's priorities. The Council has undertaken extensive consultation in each of the last two years to identify and confirm its priorities. The Council has an ongoing engagement strategy which has included extensive consultation on spending priorities and budget reductions.</p>

## Criteria

## Findings

The transformation programme, which commenced in 2010/11, has delivered significant savings during 2011/12 with further savings planned for 2012/13. The Transformation Board has overseen the delivery of savings through service redesign and alternative service delivery models which should secure further savings over the medium and longer term.

### **2. Securing economy efficiency and effectiveness**

The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Focus for 2011/12:

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

The Council has successfully delivered significant savings over the past two years and plans are in place to deliver further savings in 2012/13. The Council is using cost and performance information to identify and deliver these savings and service changes. For example, in Adult Social care changes to care packages are providing home based care, which is designed to both improve client experience and reduce costs. Contracts have also been renegotiated to reduce costs in areas such as waste.

Alternative approaches to delivering services are being developed. The 'reablement' programme and increased use of telecare in Adult Social care, and the reconfiguration of Children's centres, is enabling services to continue in a different way or from different locations. Changes to Library services are delivering financial savings whilst retaining library services for example through reduced hours.

The Council has strong and comprehensive project management and risk management arrangements in place to support the delivery of its savings and transformation programmes. These project and risk management processes should ensure that the Council is able to monitor delivery of savings effectively whilst also understanding the impact of resource and staffing changes on services and performance.

# Fees

## I reported my planned audit fee in the January 2012 Audit Plan.

27 I will complete the audit within the planned fee.

Table 4: Fees

	Planned fee 2011/12 (£)	Expected fee 2011/12 (£)
Audit	£226,749	£208,609
Claims and returns	£47,000 (estimate)	£47,000 (estimate) <sup>i</sup>
<b>Total</b>		

28 The Audit Commission has paid a rebate of £18,140 to reflect attaining internal efficiency savings, reducing the net amount payable to the Audit Commission to £208,609.

<sup>i</sup> Work on claims and returns is charged on a per diem basis and is not expected to be completed before October 2012

# Appendix 1 – Draft independent auditor’s report

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## INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF BLACKBURN WITH DARWEN BOROUGH COUNCIL

### Opinion on the Authority financial statements

I have audited the financial statements of Blackburn with Darwen Borough Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Blackburn with Darwen Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

### Respective responsibilities of the Director of Finance and auditor

As explained more fully in the Statement of the Director of Finance’s Responsibilities, the Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

## **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

## **Opinion on financial statements**

In my opinion the financial statements:

- give a true and fair view of the financial position of Blackburn with Darwen Borough Council as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

## **Opinion on other matters**

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

## **Matters on which I report by exception**

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects

## **Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources**

### **Respective responsibilities of the Authority and the auditor**

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

### **Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.



## **Conclusion**

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, Blackburn with Darwen Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

## **Certificate**

I certify that I have completed the audit of the accounts of Blackburn with Darwen Borough Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Karen Murray  
District Auditor

Audit Commission  
Aspinall House  
Middlebrook  
Bolton  
BL6 6QQ

27 September 2012

# Appendix 2 – Uncorrected errors

I identified the following errors during the audit which management have not addressed in the revised financial statements.

		Statement of comprehensive income and expenditure		Balance sheet	
Item of account	Nature of error	Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
Note 12 – Property, plant and equipment	Testing of the existence of property, plant and equipment identified fully depreciated items of equipment that the Council no longer owns or use. The gross cost/valuation and cumulative depreciation in note 12 is overstated by £788k. There is no impact on the balance sheet as the assets have a net book value of nil.	0	0	788	788
Note 12 – Property, plant and equipment	The Council have incorrectly accounted for the land relating to the Pleckgate PFI scheme as a disposal and subsequent addition, rather than a revaluation. As a result, disposals in note 12 are overstated by £300k and revaluation losses in note 12 are understated by £300k. However, the net book value of land and buildings relating to the Pleckgate PFI scheme is correctly stated and there is no net impact on the value included in the Balance Sheet at 31 March 2012	300	300	300	300

		Statement of comprehensive income and expenditure		Balance sheet	
Balance Sheet – Property, plant and equipment	The Council's accounting policy for componentisation of assets states that components are only recognised where they represent at least 20% of the overall value of the asset. In practice, components are recognised below this level and depreciation is charged separately on these components. This results in the depreciation charge for these assets being an estimated £270k higher than it would be if the Council's accounting policy had been applied as intended, although there is no impact on the overall financial position of the Council. This issue was identified and reported to you in 2010/11	270	270	270	270

# Appendix 3 – Corrected errors

I identified the following errors during the audit which management have addressed in the revised financial statements.

		Statement of comprehensive income and expenditure		Balance sheet	
Item of account	Nature of error	Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
Balance Sheet: Property, plant and equipment Long term liabilities	The Market Hall lease has been reclassified to an operating lease. The asset and liability of £11.7m has been removed from the balance sheet.	-	-	£11,700	£11,700
Note 12 Property, plant and equipment	Property, plant and equipment additions of £12.1m relating to the Market Hall and the Data Centre have been reclassified from Land and Buildings to Vehicles, Plant, Furniture and Equipment.	-	-	£12,100	£12,100
Collection Fund	Errors in the precept values and contribution to previous years Council Tax resulted in the deficit for the year and the cumulative deficit being understated by £22k.	-	-	-	-
Various notes	A number of disclosure errors and omissions have been corrected. These corrections do not have any impact on the main statements but include: <ul style="list-style-type: none"> <li>All restated balances have been clearly labelled as 'restated' as required by IAS8.</li> <li>Critical judgements in applying accounting policies have been expanded to include judgements relating</li> </ul>				

to PFI schemes, finance and operating leases, and inclusion or exclusion of schools on the balance sheet.

- PFI disclosures have been expanded to cover all the areas of disclosure required by the Code.
  - Disclosures for Heritage Assets have been expanded to cover all the areas required by the Code.
  - Prior year comparative figures have been added to note 38 Operating Leases.
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# Appendix 4 – Draft letter of management representation

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## Blackburn with Darwen Borough Council - Audit for the year ended 31 March 2012

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors of Blackburn with Darwen Borough Council, the following representations given to you in connection with your audit of the Authority's financial statements for the year ended 31 March 2012.

### **Compliance with the statutory authorities**

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Authority, for the completeness of the information provided to you, and for making accurate representations to you.

### **Uncorrected misstatements**

The effects of uncorrected financial statements misstatements summarised in the attached schedule are not material to the financial statements, either individually or in aggregate.

### **Supporting records**

I have made available all relevant information and access to persons within the Authority for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Authority.

## **Internal control**

I have communicated to you all deficiencies in internal control of which I am aware

## **Irregularities**

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk the financial statements may be materially misstated as a result of fraud.

## **Law, regulations, contractual arrangements and codes of practice**

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Authority has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

**Accounting estimates including fair values**

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

**PFI Schemes**

I confirm that there have been no material payment deductions or contract variations for the operational Pleckgate PFI scheme.

I confirm that there have been no material refinancing gains for the operational Pleckgate PFI scheme.

I confirm that no material payments for interim services or capital contributions have been made to the operator in respect of the non-operational PFI scheme for Witton Park/Central Blackburn.

**Related party transactions**

I confirm that I have disclosed the identity of the Authority's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the Code.

**Subsequent events**

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

Signed on behalf of Blackburn with Darwen Borough Council

I confirm that this letter has been discussed and agreed by the Audit Committee on 25 September 2012.

Signed

Elizabeth Hall

Director of Finance

27 September 2012



# Appendix 5 – Glossary

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## **Annual Audit Letter**

Letter issued by the auditor to the Authority after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

## **Annual Governance Report**

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion [and conclusion].

## **Annual Governance Statement**

The annual report on the Authority's systems of internal control that supports the achievement of the Authority's policies aims and objectives.

## **Audit of the accounts**

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

## **Audited body**

A body to which the Audit Commission is responsible for appointing the external auditor.

## **Auditing Practices Board (APB)**

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

## **Auditing standards**

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

**Auditor(s)**

Auditors appointed by the Audit Commission.

**Code (the)**

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

**Commission (the)**

The Audit Commission for Local Authorities and the National Health Service in England.

**Ethical Standards**

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

**Financial statements**

The annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

**Group accounts**

Consolidated financial statements of an Authority and its subsidiaries, associates and jointly controlled entities.

**Internal control**

The whole system of controls, financial and otherwise, that the Authority establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

**Materiality**

The APB defines this concept as 'an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor's report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement

within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

### **Significance**

The concept of ‘significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the financial statements. Significance has both qualitative and quantitative aspects.

### **Those charged with governance**

Those entrusted with the supervision, control and direction of the Authority. This term includes the members of the Authority and its Audit Committee.

### **Whole of Government Accounts**

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Authority must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its financial statements.

# Appendix 6 – Action plan

## Recommendation 1

Ensure that appropriate arrangements are in place to monitor the PFI contracts going forwards and ensure that any changes to the schemes are captured in the accounting model.

<b>Responsibility</b>	Head of Financial Services
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<b>Priority</b>	Medium
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<b>Date</b>	31 March 2013
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<b>Comments</b>	Agreed
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## Recommendation 2

Ensure that all land and buildings are subject to revaluation at intervals of no more than five years.

<b>Responsibility</b>	Head of Financial Services
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<b>Priority</b>	Medium
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<b>Date</b>	31 March 2013
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<b>Comments</b>	Agreed
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## Recommendation 3

Regularly review the asset register to ensure that any assets which have become obsolete or that have been disposed of are removed from the asset register and the accounts.

<b>Responsibility</b>	Head of Financial Services
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<b>Priority</b>	Medium
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<b>Date</b>	31 March 2013
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<b>Comments</b>	Agreed
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