

The Audit Findings for Blackburn with Darwen Borough Council

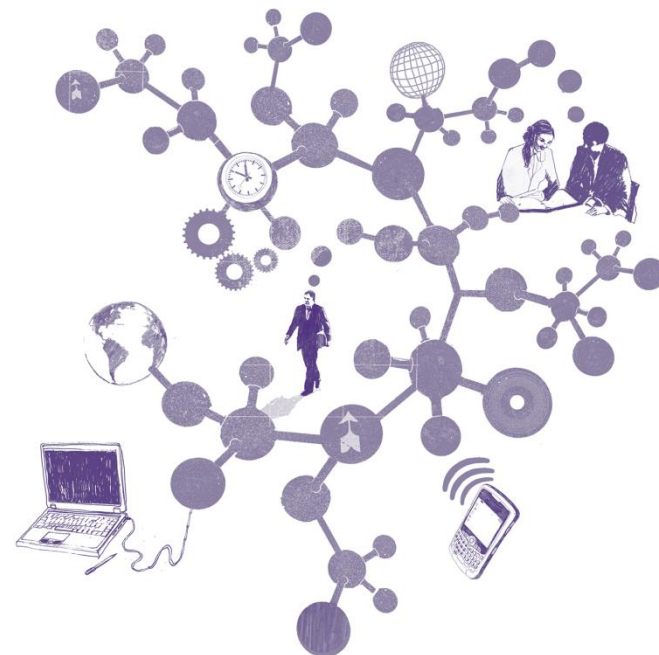
Year ended 31 March 2015

September 2015

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Section 1: Executive summary

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Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Blackburn with Darwen Council's (the Council) financial statements for the year ended 31 March 2015. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA UK&I).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position and expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated March 2015.

Our audit is substantially complete although we are finalising our work in the following areas:

- review of the exercise undertaken by the Council to demonstrate that the carrying value of Property Plant and Equipment does not differ materially from the fair value
- completion of a small amount of employee remuneration testing
- review of the final version of the financial statements
- obtaining and reviewing the final management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion and
- Whole of Government Accounts

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable and ahead of the statutory deadline of 30 June.

Key issues arising from our audit

Financial statements opinion

Subject to the completion of outstanding work set out previously, we anticipate providing an unqualified opinion in respect of the Council's financial statements.

We have worked closely with the Council's finance team through the year to address issues ahead of the preparation of the draft financial statements. The key messages arising from our audit of the Council's financial statements are:

- as last year, the draft accounts were prepared to a good standard and supported by appropriate working papers
- finance staff were available throughout the audit to answer our questions promptly and provided additional information requested
- our audit did not identify any material issues and we did not require any adjustments affecting the Council's reported financial position.
- the Council have amended the Comprehensive Income and Expenditure Account to correct a non material error but management have chosen not to amend the draft financial statements for 2 non material issues we identified relating to Property, Plant and Equipment values
- a number of adjustments were agreed to ensure compliance with accounting practices and to improve the presentation of the financial statements

Further details are set out in section two of this report.

Value for Money conclusion

We are pleased to report that, based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VfM conclusion.

Further detail of our work on Value for Money is set out in section three of this report.

Whole of Government Accounts (WGA)

We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable.

Controls

Roles and responsibilities

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

Our work has not identified any control weaknesses which we need to highlight for your attention. Further details are provided within section two of this report.

The way forward

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Director of Finance and IT.

We have made a number of recommendations, which are set out in the action plan in Appendix A. Recommendations have been discussed and agreed with the Director of Finance and IT and the finance team.

Acknowledgment

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
September 2015

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and the findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Committee on 14 April 2015. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you on 14 April 2015.

Audit opinion

Our proposed unqualified audit opinion is set out in Appendix B.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (UK&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>Improper revenue recognition</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<p>We have undertaken work to:</p> <ul style="list-style-type: none"> • review and test revenue recognition policies • test material revenue streams • review unusual significant transactions 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we determined that the risk of fraud arising from revenue recognition could be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Blackburn with Darwen Council, mean that all forms of fraud are seen as unacceptable.
2.	<p>Management override of controls</p> <p>Under ISA (UK&I) 240 there is a presumed risk of management over-ride of controls</p>	<p>We have undertaken work to:</p> <ul style="list-style-type: none"> • review accounting estimates, judgements and decisions made by management • test journal entries • review unusual significant transactions 	<p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>

Audit findings against significant risks

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In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
3	<p>Implementation of a new payroll system in January 2015.</p> <p>Under ISA 315 there is a risk of material misstatement resulting from potential inaccurate or incomplete processing for routine transactions.</p>	<p>We have undertaken work to:</p> <ul style="list-style-type: none"> • review the Council's own testing completed on data migration and verification of the accuracy of processed payments • substantively test employee expenditure for the periods April to December 2014 and then January to March 2015. • assess the controls put in place by the Council to help manage the implementation of the new payroll 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses	Creditors understated or not recorded in the correct period	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented and identified the processes and key controls within the operating expenses cycle • walkthrough of controls to confirm our understanding • substantive testing of operating expenses during 2014-15 • detailed review and testing of year end accruals and creditor balances including confirmation that balances due have been settled after the year end • cut off testing to obtain assurance that creditors have been accounted for in the correct financial year. 	Our audit work has not identified any significant issues in relation to the risk identified
Employee remuneration	Employee remuneration accrual understated	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documentation and identification of the processes and key controls within the employee remuneration cycle • walkthrough of controls to confirm our understanding • use of analytical techniques to compare expected payroll costs with actual • review of payroll reconciliations including at the year end • substantive testing of payments made to employees during the 2014-15 financial year 	<p>Our audit work completed to date has not identified any significant issues in relation to the risk identified .</p> <p>However, at the time of preparing this report we have been unable to complete our testing for one employee in our sample. Officers are working to obtain the required supporting evidence to confirm that the member of staff is employed and paid by the Council.</p>



Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.



Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Welfare expenditure</p>	<p>Welfare benefit expenditure improperly computed</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented and identified the processes and key controls • walkthrough of controls to confirm our understanding • agreement of the system parameters used to complete 2014/15 claims to the Department of Work & Pensions notifications • substantive testing of claimant eligibility • review of reconciliation of welfare expenditure system to the general ledger and financial statements • housing Benefits Subsidy Claim testing using the agreed HBCOUNT audit approach • use of analytical review 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<p>The Council's revenue recognition policies can be summarised as follows:</p> <ul style="list-style-type: none"> income is accounted for in the financial year in which the activity it relates to takes place, regardless of when the cash payment is received. Council tax and non – domestic rates income are accrued for in the same way as other Council income. The Council's share of the income is recognised in the CIES. interest receivable is accounted for on the basis of the effective interest rate government grants, other donations or contributions are recognised when the conditions for their receipt have been complied with. 	<p>The Council's policy is appropriate and consistent with the relevant accounting framework – the CIPFA Code of Practice on Local Authority Accounting (the CIPFA Code).</p> <p>The main elements of the Council's revenues are predictable and there is minimal judgement required by the Council.</p> <p>The accounting policy is appropriately disclosed in accounting policies section of the financial statements.</p>	 Green
Estimates and judgements	<p>Key estimates and judgements include:</p> <ul style="list-style-type: none"> an assessment that there is no requirement for group accounts useful lives of property, plant and equipment assessment of carrying value v fair value pension fund valuations and settlements Revaluations and impairments provisions and accruals 	<p>The Council's accounting policies for key estimates and judgements are appropriate and consistent with the relevant accounting framework – the CIPFA Code of Practice on Local Authority Accounting (the CIPFA Code).</p> <p>In previous years, the Council carried out a rolling programme of revaluations. This approach was similar to many other authorities and we are satisfied that you have undertaken a review to satisfy yourselves that the carrying amount of Property, Plant and Equipment (based on these valuations) did not differ materially from the fair value at 31 March 2015.</p> <p>Our audit testing of key estimates and judgements has considered the extent of judgement involved, the potential impact of different assumptions and the range of possible outcomes. We are satisfied that the key estimates and judgements are appropriate and adequately disclosed.</p>	 Green

Assessment

-  Marginal accounting policy which could potentially attract attention from regulators
-  Accounting policy appropriate and disclosures sufficient

-  Accounting policy appropriate but scope for improved disclosure

Accounting policies, estimates & judgements continued

Accounting area	Summary of policy	Comments	Assessment
<p>Judgements - local authority maintained schools premises</p>	<p>The Council's recognition criteria for schools non-current assets is determined by ownership and the rights of the legal owner. All Community Schools are recognised on the Council's balance sheet. Voluntary Controlled, Voluntary Aided and Academy Schools are not recognised on the Council's balance sheet.</p>	<ul style="list-style-type: none"> The Council has considered the content of the CIPFA Code of Practice and supplementary guidance, and has documented its judgement with supporting evidence. The Council's accounting policy for Schools non-current assets is clearly and fully disclosed in note 15 to the financial statements, and has been consistently applied. Our review of the accounting policy, accounting treatment and evidence to support the Council's judgement has not identified any issues which we wish to bring to your attention. 	<p style="text-align: center;">● Green</p>
<p>Going concern</p>	<p>The Directors have a reasonable expectation that the services provided by the Council will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.</p>	<p>We have reviewed the Directors' assessment and are satisfied with managements' assessment that the going concern basis is appropriate for the 2014/15 financial statements.</p>	<p style="text-align: center;">● Green</p>
<p>Other accounting policies</p>	<p>We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.</p>	<p>Following our review of accounting policies the Council made a small number of minor amendments to improve the disclosures. There are no issues which we wish to bring to your attention.</p>	<p style="text-align: center;">● Green</p>

Assessment

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any material incidents in the period and no other issues have been identified during the course of our audit.
2.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	Written representations	<ul style="list-style-type: none"> A letter of representation has been requested from the Council requesting management to set out reasons for not amending the financial statements for the items identified on page 18
4.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements
5.	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related party transactions which have not been disclosed.
6.	Confirmation requests from third parties	<ul style="list-style-type: none"> We obtained direct confirmations from PWLB and from banks for the main accounts held by the Council.

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls 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. We considered and walked through the internal controls for Employee Remuneration , Operating Expenses and Welfare Expenditure as set out on pages 10 and 11 above.

As part of our planned programme of work on internal controls, our information system specialist team undertook a high level review of the general IT control environment at the Council. We are pleased to report that no significant issues arose from our work although we did identify two areas where the Council's existing IT arrangements can be further developed. The issues will be shared with the Director of Finance and IT and we will consider any actions the Council may implement in response.

The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all non-trivial misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

All adjusted misstatements are set out below along with the impact on the primary statements and the reported financial position.

Detail	Comprehensive Income and Expenditure Account £'000	Impact on total net expenditure £000
<p>1 Highways and Transport Services – income and expenditure overstated</p> <p>The Council brought to our attention an error in the Comprehensive Income and Expenditure Accounts resulting in the overstatement of both Highways and Transport expenditure and income.</p> <p>Officers explained that LED lanterns used in the Street Lighting Investment capital scheme were initially purchased, via the stores system, from a revenue budget then recharged to capital.</p> <p>As a result both revenue expenditure and income in respect of Highways and Transport Services have been overstated by £3.027m and this double counting should have been eliminated by way of a consolidation adjustment.</p> <p>The accounts have been amended to correct this error and there is no impact on the financial position reported by the Council.</p>	<p>Dr - Highways and Transport Income - £3,027</p> <p>Cr – Highways and Transport Expenditure - £3,027</p>	<p>Nil</p>

Unadjusted misstatements

The table below provides details of adjustments identified which we request be processed but which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Reason for not adjusting
<p>1 Asset Revaluations</p> <p>All schools on the Council's Balance Sheet as at 1 April 2014 were subject to a revaluation or desk top revaluation during the year. However, only schools where the revised value was deemed to be "significantly different" were amended in the fixed asset register.</p> <p>Our review of all revaluations identified that there were unprocessed upward revaluation totalling £6.2m and downward revaluations totalling £1.5m. Consequently, the net impact of this omission is that the asset value of schools is understated by £4.7m</p>	N/a	£4.7m	The amount is not material
<p>2 Asset Revaluations</p> <p>Our review of asset values in the Fixed Asset Register compared to asset values in the database of asset values maintained by the Valuer – PROPMAN – identified four assets with different valuations recorded on the 2 systems. The cumulative effect of these was that assets are understated by £1.039m</p>	N/a	£1.039m	The amount is not material
Overall impact	N/a	£5.739m	

Amendments, Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Disclosure Note	£22	Note 8 – Termination Benefits	<p>Six employees made redundant during the year received their redundancy payment twice in error. The staff were employees at a School where Capita were the payroll provider. The total value overpaid was £117k.</p> <p>Capita has taken action to recover the overpayments and as at early September 2015, £22k remained outstanding. The disclosure note has been corrected for this issue</p>
2 Disclosure	N/a	Operating Lease income	Note 29 Leases - operating leases sets out a £19.5m decrease in future years payments and a brief disclosure has been included to explain the basis of the movement.
3 Disclosure	N/a	Property, Plant and Equipment	Following an exercise to determine which schools should be on the Balance sheet, the Council "brought on" Ashworth Primary – Accounting standards set out that a full revaluation should have been undertaken by the Valuer. However only a desktop revaluation was completed.

Section 3: Value for Money

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Value for Money

Value for money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources;
- ensure proper stewardship and governance; and
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VfM conclusion based on two criteria specified by the Audit Commission which support our reporting responsibilities under the Code.

These criteria are:

The Council has proper arrangements in place for securing financial resilience - the Council 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.

The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness - the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control.

Our review confirmed that the Council continues to have effective arrangements in place to deliver financial resilience. However, the Council is facing increasing financial and demographic pressures. As a result, identifying and securing the required savings is becoming increasingly difficult.

In 2014/15 actual net expenditure was £148.282m compared to the original budget of £145.260m, an overspend of £3.022m. Portfolios overspent by £7.089m and the Council utilised an additional £2.614m of unplanned reserves. Whilst the overall level of reserves and general fund balances remain at appropriate levels, this performance and use of reserves is unsustainable over the medium to longer term. It is indicative of the challenging financial position that the Council continues to face.

Between 2013/14 – 2014/15, the Council have achieved savings of £29.1m. In March 2014 a detailed Medium Term Financial Strategy (MTFS) 2014 – 17 was approved that reflected the financial position and was based on appropriate principles and assumptions. This MTFS set out a forecast funding gap of £28m by the end of March 2017. In March 2015 the Council set a balanced budget for 2015/16 and the MTFS was revised to cover the period 2015 -2018 and set out a cumulative budget shortfall of £45m by 31 March 2018.

Looking forward, the Council have recognised that new and innovative ways of working to deliver services will be needed to ensure that savings targets are met, costs are reduced and objectives achieved. Plans are being developed to embrace new ways of working to reshape the Council to meet these considerable financial challenges.

Value for Money

Challenging economy, efficiency and effectiveness

We have considered the Council's arrangements to challenge economy, efficiency and effectiveness against the following themes:

- Prioritising resources
- Improving efficiency & productivity

Members and the Senior Management Team of the Council have continued to demonstrate an understanding of the scale of the challenge needed to reshape the Council to ensure resources are prioritised and spending reductions achieved.

In recognition of the need to reshape the Council and change methods of service delivery, service leads have completed detailed reviews of each service area to identify and appraise a variety of options and to recommend a way forward that clearly contribute to the achievement of the Council's strategic aims and objectives.

It is acknowledged that, against the backdrop of potential devolution, new ways of working will need to be established that may include more local government joint working, the creation of Combined Authorities and pooling technical expertise.

We will monitor the progress made by the Council to ensure that robust business plans, strategies and financial plans are now put in place to help achieved the stated outcomes.

Overall VfM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.

We set out below our detailed findings against six risk areas which have been used to assess the Council's performance against the Audit Commission's criteria. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

Green	Adequate arrangements
Amber	Adequate arrangements, with areas for development
Red	Inadequate arrangements

The table below and overleaf summarises our overall rating for each of the themes reviewed:

Theme	Summary findings	RAG rating
Key indicators of performance	<p>The financial performance of the Council has been closely monitored throughout the 2014/15 and, with the unplanned use of reserves, actual net expenditure was £148.282m compared to the original budget of £145.260m. This overspend of £3.022m is indicative of the increasingly challenging financial position that the Council faces, in particular in the delivery of the Adult Services financial budget which the Council acknowledges is a significant risk.</p> <p>Performance against key indicators is mixed with evidence of both effective performance and areas where further action is required as set out below:</p> <ul style="list-style-type: none"> • Portfolios have overspent by £7.084m and the Council required the use of £2.614m of unplanned reserves • The General Fund balance has decreased to £6.651m. However, it remains above the minimum requirement of £5.905m set out in the risk assessment completed by the s151 officer; • The Council has in place a £9.557m reserve to support future downsizing. A report to Council in March 2015 confirmed the majority of this reserve is not yet committed. • Long term debt has again fallen from £122.3m in 2013/14 to £118.2m in 2014/15 as the Council seeks to reduce both risk and costs linked to repayment; • A detailed treasury management strategy is in place that is approved by the Council annually. The 2014/15 report confirms compliance with the treasury limits set and all prudential indicators; • The Council secured a small improvement in Council Tax collection performance rising to 96.42% compared to 96.03% in 2013/14. Business rate collection was up to 98.1%, an improvement on the 2013/14 level of 97.3%; • The capital programme was kept under close review during the year and a number of schemes were re-profiled into 2015/16. This resulted in capital expenditure of £63m in 2014/15 against a original capital budget of £83m. Major schemes included the construction of an office block, hotel and infrastructure improvements in the Cathedral Quarter and the purchase of LED street lighting units; • Sickness absence across the Council remains high at 10.46 days absence per full time employee against a 2014/15 target of 8 days. 	Amber

Theme	Summary findings	RAG rating
Strategic financial planning	<p>Overall, the Council has appropriate arrangements in place to report and manage the delivery of its revenue budget .</p> <p>To deliver the 2013/14 budget, the Council needed to achieve savings of £13.1m with a further £16m of savings achieved in 2014/15. The MTFS 2014-17 was approved by the Council in March 2014 alongside the annual budget. This MTFS was updated over the summer to reflect the continued significant financial pressures the Council faced and to model various revised planning assumptions. A revised MTFS was presented to Council in September 2014 and a savings programme approved to achieve almost £26 million savings over the 3 years to 31st March 2018. In March 2015, as part of the continuous updating of the MTFS, a revised MTFS 2015-18 along with the 2015/16 revenue budget was approved by the Council</p> <p>The MTFS is predicated on modelling that sets out a Best, Medium and Worst Case scenario with each scenario incorporating a variety of assumptions and a range of possible inputs/outcomes. These include;</p> <ul style="list-style-type: none"> • Changes in government policy and impact on funding streams; • Demographic trends and other social pressures; and • Economic variables such as inflation and interest rates <p>Each department has a RAG rated Savings Plan in place alongside a monitoring spread sheet containing details of all savings required. Regular monitoring of these spread sheets is undertaken and they are updated to show progress made, slippage and areas for concern. The position is also monitored at Budget holder meetings and at Management Board.</p>	Green

Theme	Summary findings	RAG rating
Financial governance	<p>The Council has effective financial governance arrangements in place.</p> <p>The Council's financial environment and its financial performance is understood at all levels of the organisation. In recent years, the Council has had a good track record of delivering performance in line with budgets.</p> <p>Members and Officers have an appropriate focus on the financial management process. The Council has effective budget monitoring and reporting arrangements in place where variances are identified and reported to Members alongside the planned corrective actions on a regular basis.</p> <p>The Management Accountabilities Framework (MAF) is well established and these arrangements help secure financial governance. The MAF requires, on a quarterly basis;</p> <ul style="list-style-type: none"> • an update on performance against each department's business plan; • completion of a checklist of corporate areas that every Head of Service is held responsible for, ensuring that Council procedures and policies are being adhered to by all staff; • updates on outstanding actions and recommendations made from any internal audit, external audit or inspection reports; and • updates on responsibilities for monitoring and reporting on any key performance indicators to Central Government, or to the Council (e.g. Corporate Plan indicators), and also as part of the individual departmental plan, to departmental management teams or relevant partners <p>The Audit Committee provides challenge on financial and governance issues. However, there is scope for the Committee to request that Directors /Head of service be requested to attend at Audit Committee when a report is received giving limited or no assurance on the controls in place and operating.</p> <p>The section 151 officer is part of the senior management team and, along with the Monitoring Officer, attend all Executive Board and Council meetings.</p>	Green

Theme	Summary findings	RAG rating
Financial control	<p>The Council has effective business planning and budget setting processes in place and maintaining spend within the overall budget is seen as a priority.</p> <p>Capital and revenue monitoring reports are provided to the Executive regularly throughout the year, providing analysis of financial performance with supporting narrative and clear identification of any budget variations or virements.</p> <p>The Council has successfully delivered savings in previous years but needs to continue to carefully monitor current saving plans to ensure they are being delivered and to take appropriate action for slippage or under achievement. The Council recognises there is significant risk associated with achievement of savings plans, particularly around the timing of the delivery of the savings. A Slippage Reserve has been set up to provide manage the financial impact of slippage in timescales or delays whilst alternative plans are put in place. Additional ear-marked reserves have been established to assist the Council in the transition to managing on reduced resources such as the redundancy reserve and the invest to save reserve.</p> <p>The Council has an in-house internal audit (IA) function which complies with the standards set out by the Public Sector Internal Audit Standards, which is currently determined on a self assessment basis. IA plans are approved by the Audit and Committee and regular progress reports against the Plan are presented that set out key issues and the status of recommendations. The 2014/15 Annual Internal Audit Opinion was that overall, "...the Council has adequate systems of risk management, control and governance, which are being applied to an adequate standard".</p> <p>We noted that IA delivered 73% of the approved plan for 2014/15 with 76% delivered in 2013/14. Although revisions to the original plan were agreed in both years and IA were able to conclude that sufficient appropriate work was completed to enable the overall opinion to be issued, the Council will need to consider the impact of not delivering the agreed plan in full over a sustained period.</p> <p>During 2014/15 the Council had an experienced finance team in place. However, a number of key personnel have since left their posts. The Council will need to ensure that sufficient capacity is maintained to meet the continuing financial challenges and help support future service delivery.</p> <p>The main financial systems provide reliable and timely financial monitoring information to enable the Council to identify and manage financial risks.</p> <p>Risk management arrangements are in place and have contributed to the delivery of the planned savings programme across the Council. However, we note that an IA review of risk management provided a limited assurance opinion on the controls in place.</p>	Green

Theme	Summary findings	RAG rating
Prioritising resources	<p>Members and the Senior Management Team of the Council have continued to demonstrate a clear understanding of the scale of the challenge needed to reshape the Council to ensure resources are prioritised and spending reductions achieved. To date, the Council has met the challenge of delivering significant savings and a review of all services has been completed and options prepared setting out how further budget reductions will be achieved over a three year period. The Council has established an invest to save reserve to support appropriate plans and all such initiatives are subject to option appraisal and business case challenge.</p> <p>A 15 year strategic public private partnership contract between Capita and the Council will end in June 2016. The Council has commenced a review of the options for future service delivery. A key consideration of the review was to ensure options contributed to the delivery of objectives set out in the Corporate Plan.</p> <p>To help achieve the delivery of key objectives an internal review Programme Board has been established, chaired by the Deputy Chief Executive, with membership drawn from other relevant chief officers. It is intended that this Board will drive the programme of transformation across the Council, provide strategic direction for the service leads and identify future service delivery models. The Programme Board oversees the Project Steering Group (PSG), which is made of up of service leads for each service area as well as representatives from the Council's support services departments. The role of the PSG is to deliver the objectives of the review programme, ultimately ensuring that the future service delivery models identified and recommendations made meet the Councils corporate priorities, strategic vision and budget pressures.</p>	Green
Improving efficiency & productivity	<p>The Council has met the challenges of delivering significant financial savings in recent years and arrangements are in place to monitor performance of key services through the Management Accountabilities Framework (MAF).</p> <p>The Council seeks to understand its costs and to identify opportunities for cost reductions and efficiencies by utilising benchmarking data such as that produced by CIPFA to help challenge and understand costs. During 2014/15 the Council have worked with external business management consultants, to review and understand the increased costs and complexity of care packages. Benchmarking data has been used to help prioritise areas to review.</p> <p>The Council recognises the importance of potential devolution. The opportunities this may bring are being considered by the Council and its partners and stakeholders. Ultimately, it may provide new ways of working and require more joint working across public sector organisations. Councils will be encouraged to support growth by working closely with partners possibly through models such as Combined Authorities and through the creation of shared procurement opportunities.</p> <p>As part of the Council wide review initiated in response to the end of the contract with Capita, service leads have completed an Options Business Case for each service area. This include the identification and appraisal of various options and recommending a preferred option based on factors including service standards, financial benefit/savings, future flexibility and contributing to the Council's strategic objectives and vision.</p> <p>The Council has recognised that there is scope to strengthen processes in relation to corporate procurement arrangements and a review is underway to secure improvements. The development of partnership arrangements is also recognised as a challenge.</p>	Green

Section 4: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

Fees, non-audit services and independence

We confirm below our final fees charged for the audit and provision of non-audit services..

Fees

	Per Audit plan £	Actual fees £
Council audit	137,119	137,119
Grant certification on behalf of Audit Commission	19,880	23,712
Total audit fees	156,999	160,831

Grant certification

Our Audit Plan set out a fee for grant certification that only included housing benefit subsidy certification. Subsequently, we were required to complete the certification of your Local Transport Plan.

Fees for other services

Service	Fees £
Audit related services	
Teachers Pensions Agency Accountants report	4,200
Regional Growth Fund – Yet to be invoiced	-
Non audit related services	5,750

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

Communication of audit matters to those charged with governance

International Standard on Auditing ISA (UK&) 260, as well as other (UK&I) ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice (the Code) issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

	Audit Plan	Audit Findings
Our communication plan		
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Action plan – VFM Conclusion

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
Securing Financial Resilience				
1	Review the rising level of sickness absence per FTE and ensure effective action is undertaken to manage cases, reduce absence and work toward achieving the target.	Medium		
2	Ensure that plans are in place to manage budgets to minimise overspends, particularly in Adult Social Care, as recognised by the Council in the Annual Governance Statement.	High		
3	Review the achievability of the of Internal Audit annual plan in light of the delivery challenges faced in recent years.	Medium		
4	Ensure action is taken to address the issues identified by IA in their March 2015 review of risk management arrangements which gave a limited assurance opinion based on compliance issues with controls in place.	Medium		

Priority
High, Medium or Low

Appendix A: Action plan – VFM

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
Securing economy, efficiency and effectiveness				
5	Monitor progress against the plans and recommendations put in place that seek to strengthen corporate procurement arrangements.	Medium		
6	Ensure that robust business plans, strategies and financial plans are now put in place to help achieved the stated aim to develop alternative partnership arrangements and methods of service delivery.	High		

Priority
High, Medium or Low

Appendix B: Audit opinion - Draft

We anticipate we will provide the Council with an unmodified audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BLACKBURN with DARWEN COUNCIL

We have audited the financial statements of Blackburn with Darwen Council for the year ended 31 March 2015 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, the 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 2014/15.

This report is made solely to the members of Blackburn with Darwen Council, as a body, in accordance with Part II of the Audit Commission Act 1998 and as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Chief Financial Officer 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 2014/15, and for being satisfied that they give a true and fair view. Our 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 also require us 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 and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the introduction by the Director of Finance and IT to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Blackburn with Darwen Council as at 31 March 2015 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and applicable law.

Opinion on other matters

In our 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 we report by exception

We are required to report to you if:

- in our 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; or
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998; or
- we designate under section 11 of the Audit Commission Act 1998 a recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

Conclusion on the 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.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves 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 us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission in October 2014.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we 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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2014, 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 us to consider under the Code of Audit Practice in satisfying ourselves 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 2015.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we 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 our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2014, we are satisfied that, in all significant respects, Blackburn with Darwen Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

Certificate

We certify that we have completed the audit of the financial statements of Blackburn with Darwen 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
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

XX September 2015



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