

The Audit Findings for Blackburn with Darwen Council

Year ended 31 March 2016

September 2016

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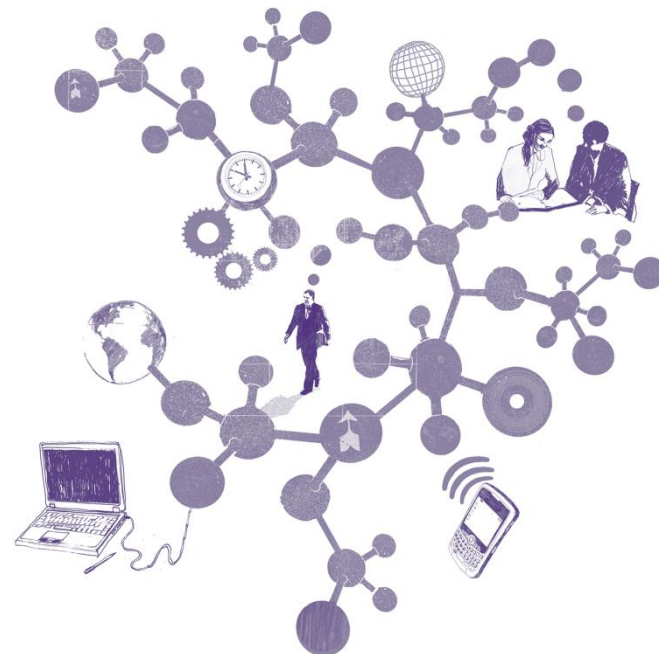
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Audit Findings for Blackburn with Darwen Council for the year ending 31 March 2016

This Audit Findings report highlights the key findings arising from the audit for the benefit of those charged with governance (in the case of Blackburn with Darwen Council, the Audit Committee), as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with the Director of Finance and IT.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. 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 will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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

Karen Murray
Engagement lead

Chartered Accountants

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Section 1: Executive summary

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Purpose of this report

This report highlights the key issues affecting the results of Blackburn with Darwen Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2016. 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 (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure 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 consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with required guidance.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').

Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);

- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act)

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

Introduction

We are pleased to report that the draft accounts were prepared to good standard and supported by working papers. The draft financial statements were again prepared ahead of the national deadline of 30 June.

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated March 2016.

Our audit is substantially complete although as at 23 August 2016 we are completing our procedures or awaiting further information from officers in the following areas:

- Clearing a small number of final queries;
- review of the final version of the financial statements;
- obtaining and reviewing the management letter of representation;
- updating our post balance sheet events review, to the date of signing the opinion; and
- whole of Government Accounts (WGA) Data Collection Tool;

Key audit and financial reporting issues

Financial statements opinion

We have not identified any adjustments affecting the Council's reported financial position.

The key messages arising from our audit of the Council's financial statements are:

- the draft accounts were prepared to a good standard and supported by working papers
- the Council committed to preparing the accounts to a much tighter timescale this year, in anticipation of the statutory deadline moving forward from 2017/18. The accounts were available to us on 23 June 2016, which although slightly later than planned, was in advance of the national deadline of 30 June 2016.
- there are no significant amendments required to the accounts as a result of our audit
- 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.

We anticipate providing a unqualified audit opinion in respect of the financial statements following the Audit Committee on 20 September 2016.

Controls

Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes:

- if the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit.

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.

Findings

Our work has not identified any control weaknesses which we wish to highlight for your attention.

Further details are provided within section two of this report.

Value for Money

Based on our review, we are satisfied that, in all significant respects, the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources and we propose to give an unqualified Vfm conclusion.

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

Other statutory powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

Further details of our work on other statutory powers and duties is set out in section four of this report.

Whole of Government Accounts

HM Treasury has issued the 2015/16 Whole of Government Accounts (WGA) data collection tool late on 4 July 2016. However, due to software issues with the tool Council's could only accessed it from week commencing 18 July 2016. HM Treasury has therefore revised the timetables and had set a deadline for completion of the WGA to 12 August, 2016.

The Council has now completed the tool and we have liaised with officers to agree a timetable for completion of our review.

Grant certification

In addition to our responsibilities under the Code, we are required to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. At present our work on this claim is in progress and is not due to be finalised until 30 November 2016. We will report the outcome of this certification work through a separate report to the Audit Committee in early 2017.

The way forward

Matters arising from the financial statements audit and our 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 & IT.

Acknowledgement

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 2016

Section 2: Audit findings

01. Executive summary

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Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

In our audit plan, we reported that we had determined overall materiality to be £8,878k (being 2% of gross revenue expenditure). However, we considered whether this level remained appropriate during the course of the audit and we revised our overall materiality to £8,279k. This remains at 2% of gross revenue expenditure reflected in the draft accounts. This value was applied in our detailed planning and audit of your financial statements.

We also set a revised amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £436k.

As we reported in our audit plan, we identified the following items where we undertook audit procedures, irrespective of value as these are key figures/disclosures in the accounts that should be correct:

Balance/transaction/disclosure	Explanation
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.
Members Allowances	Due to public interest in these disclosures and the statutory requirement for them to be made.
Disclosure of auditors' remuneration in notes to the statements	This is a statutory requirement and a requirement of ethical and auditing standards.
Related Party Transactions	Due to public interest in these disclosures.

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>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>For this Council, we have concluded that the greatest risk of material misstatement relates to the occurrence/ existence of expenditure and payables.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Blackburn with Darwen Council, we determined that the risk of fraud arising from revenue recognition can 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; and • the culture and ethical frameworks of local authorities, including Blackburn with Darwen Council, mean that all forms of fraud are seen as unacceptable <p>We also considered the risk for revenue recognition related to occurrence/existence of expenditure and payables and completed the following work:</p> <ul style="list-style-type: none"> • Identified and documented the processes and controls in place around expenditure at the Council • Tested journal entries, completed control environment review and walkthrough • Tested non pay expenditure as set out within 'Operating Expenses' • Reviewed unusual significant transactions 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p> <p>We have not changed our assessment that the risk of fraud arising from revenue recognition can be rebutted.</p>
2.	<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Reviewed key accounting estimates, judgments and decisions made by management • Completed testing of journal entries • Reviewed of unusual significant transactions 	<p>Our audit work has not identified any evidence of management over-ride 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 judgements.</p>

Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
3.	<p>Valuation of property, plant and equipment</p> <p>The Council revalues its assets on a rolling basis over a five year period . The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from current value.</p> <p>The CIPFA Code of Practice has implemented IFRS 13 for the 2015/16 financial statements. The Council is required to include surplus assets within property, plant and equipment in its financial statements at fair value, as defined by IFRS13. The basis on which fair value is defined for investment property is also different to that used in previous years.</p> <p>These issues represent significant estimates and change in the estimation basis of these balances by management in the financial statements.</p> <p>There are also extensive disclosure requirements under IFRS 13 which the Council needs to comply with.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Reviewed management's processes and assumptions for the calculation of estimates. • Reviewed the competence, expertise and objectivity of any management experts used. • Reviewed the instructions issued to valuation experts and the scope of their work • Discussions with valuer about the basis on which the valuation is carried out and challenge of the key assumptions. • Reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding. • Tested revaluations made during the year to ensure they are input correctly into the Council's asset register • Evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. • Reviewed the disclosures made by the Council in its financial statements to ensure they are in accordance with the requirements of the CIPFA Code of Practice and IFRS 13. 	<p>The Council has a 5 year rolling programme for valuing its land and buildings assets. This complies with the CIPFA Code of Practice requirements for valuations to be completed within a "short period". During 2015/16 the Council instructed its external valuer to complete valuations of assets with a fair value of approximately £142m.</p> <p>The valuer has undertaken these valuations throughout the year as agreed. However, we identified that the Council has assumed that where assets included in this revaluation programme have also had capital additions during the year, the additions have been taken into account by the valuer when completing the valuation and the value of those capital additions has consequently been impaired by the Council.</p> <p>However, in practice, a number of valuations take place before the capital works are complete and are not therefore taken into consideration by the valuer. We have been able to confirm that the value of capital additions not considered by the valuer is not material.</p> <p>The Council should review the dates of completed valuations against the planned programme of capital additions to ensure an accurate position is reported.</p> <p>For those assets not re-valued in year, Council officers undertake an annual assessment of the carrying value of those assets to be able to satisfy themselves that the carrying value is not materially different to the fair value at the 31st March 2016. This assessment concluded that the carrying value of assets in the financial statements is materially correct.</p>

Audit findings against significant risks continued

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
6.	<p>Valuation of pension fund net liability</p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.</p>	<p>We have undertaken the following work:</p> <ul style="list-style-type: none"> Identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. Assessed whether the controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. Reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We gained an understanding of the basis on which the valuation is carried out. Undertook procedures to confirm the reasonableness of the actuarial assumptions made. Reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. 	<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
Employee remuneration	Employee remuneration accruals understated (Remuneration expenses not correct)	<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 including a walkthrough of controls to confirm our understanding • substantive testing of in year payments made to employees for the year to 31 March 2016. Testing covered both the Council own in house payroll and those in relations to its schools, processed by CAPITA. • Review of payroll reconciliations including year end • Completion of early substantive testing plus • Used analytical techniques to compare expected payroll costs with actual 	Our audit work has not identified any significant issues in relation to the risk identified.
Operating expenses	Creditors understated or not recorded in the correct period (Operating expenses understated)	<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 including a walkthrough of controls to confirm our understanding; • substantive testing of operating expenses for the full financial year 2015-16; • Agreed creditors to system balances and control account reconciliations; • Reviewed and substantively tested year end accruals and creditor balances, including confirmation that balances due have been settled after the year end; and • "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.



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
Welfare expenditure	Welfare benefit expenditure improperly computed	<p>We undertook 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 Welfare benefits expenditure cycle including a walkthrough of controls to confirm our understanding. <p>At this stage, we concluded that there was no longer a reasonably possible risk of material error arising in respect of welfare benefits expenditure.</p> <p>We completed the following work on this material transaction stream:</p> <ul style="list-style-type: none"> Reviewed the reconciliation of welfare benefits expenditure system to the general ledger and financial statements Agreed the parameters for 2015/16 have been correctly uploaded to, and applied, by the HB system Agreed the Council is up to date with software updates to its HB system Completed sample testing of payments to ensure correctly calculated. 	Our audit work has not identified any significant issues in relation to the risk identified.

Accounting policies, estimates and 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
Judgements and estimates	<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 2016.</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> <p>We reviewed the adequacy of the bad debt provision (BDP) and were satisfied that the Council had applied appropriate judgement when completing this estimation. However, the methodology applied when determining the BDP is not documented.</p>	 Green



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

Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
Going concern	The Director of Finance & IT, the s151 officer, has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Council's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2015/16 financial statements.	 Green
Other accounting policies	We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.	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.	 Green

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 20
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.
7.	Matters on which we report by exception	<p>We have not identified any issues we would be required to report by exception in the following areas</p> <ul style="list-style-type: none"> The Annual Governance Statement meets the disclosure requirements set out in the CIPFA/SOLACE guidance and is consistent with the information of which we are aware from our audit The information in the Narrative Report is materially consistent with the information in the audited financial statements and our knowledge of the Council acquired in the course of performing our audit.
8.	Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>As the Council exceeds the specified group reporting threshold of £350m we are required to examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements.</p> <p>This work is not yet complete and we plan to finalise our review by 30 September.</p>

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 Benefits as set out on pages 14 to 15 above.

The controls were found to be operating effectively and we have no matters to report to the Audit Committee.

Unadjusted misstatements

The table below provides details of adjustments identified during the audit 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	Reason for not adjusting
<p>1 Property, Plant and Equipment Our testing of capital expenditure transactions identified the following:</p> <ul style="list-style-type: none"> • A transaction for £5,872.73 should have been classified as revenue expenditure; and • An invoice for £29,523.00 was wrongly classified as Assets under construction rather than Land and Buildings as the capital scheme had been completed by the 31 March 2016. <p>Our sample selection methodology allows the use of statistical techniques to calculate a notional maximum error value. For these errors that notional value is £3.3m. Therefore, we can be satisfied that the errors would not give rise to a material misstatement in the Council's accounts.</p>	Actual errors identified are not material.
<p>Depreciation We identified that £20m of assets had incorrectly not been depreciated in 2015/16. Officers were able to confirm that the applicable total depreciation charge for the year should have been £445k.</p>	Actual error is not material
<p>Note 8 – Officers’ Remuneration _ Employees earning over £50k This note requires total remuneration paid to employees to be disclosed in bands of £5k., the main element of which is gross pay. However, our testing identified that the note actually disclosed pay net of any salary sacrifice payments staff elect to make. Consequently there are likely to be staff disclosed in the wrong banding and staff not included who should be. An explanatory note has been added to the financial statements to clearly set out this omission.</p>	

Amendments, Misclassifications and 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	Amendment	Various	Financial Instruments	<p>The Council have amended Note 26 to include revised fair values in relation to PWLB loans based on discounted cash flows rather than premature repayment rates.</p> <p>This amendment does not impact on the reported financial position of the Council.</p>
2	Amendment		Note 8 – Termination Benefits	The statement of accounts presented for audit did not accurately differentiate between compulsory redundancies and other exit packages. The Council have reviewed the whole disclosure note, and provided a revised analysis, including costs, that was then subject to audit.
3	Amendment	Various	Senior Officer Remuneration	We identified that a number of Senior Officer disclosures did not comply with the requirements of the guidance. Management agreed to make the necessary amendments.
4	Disclosure	N/a	Various	During the audit we have agreed with Management a small number of changes to improve disclosure notes. These include changes to the narrative report and events after the balance sheet.

Section 3: Value for Money

01. Executive summary

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Background

We are required by section 21 of the Local Audit and Accountability Act 2014 (the Act) and the NAO Code of Audit Practice (the Code) to satisfy ourselves that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2015. AGN 03 identifies one single criterion for auditors to evaluate:

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

Risk assessment

We carried out an initial risk assessment by March 2016 and identified the following significant risk, which we communicated to you in our Audit Plan dated March 2016:

- The Council's medium term financial strategy (MTFS) has now been updated and developed to cover the period 2016–2020. This MTFS sets out clearly the challenging financial position the Council faces with an anticipated funding gap of £47.8 million over the four years of the plan. As part of the budget setting process for 2016/17, the Council reviewed the delivery of the 2015/16 savings plans. This review resulted in revision of the anticipated level of savings required up from £12.7m this time last year to £26.6m by March 2017. Plans and identified savings are in place setting out how the required financial position will be achieved.
- Progress in delivery will be monitored through existing arrangements that the Council have recently strengthened. The Executive Finance Steering Group has been established, chaired by the Chief Executive, to oversee delivery of the savings targets.
- The delivery of the required savings and the establishment of revised financial governance arrangements represent a significant challenge to the Council.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment.

Significant qualitative aspects

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work on page 26.

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that:

- the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources. The text of our report, which confirms this can be found at Appendix A.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Work to address	Findings and conclusions
<p>Financial position and future year savings</p> <p>The Council's medium term financial strategy (MTFS) has now been updated and developed to cover the period 2016– 2020. This MTFS sets out clearly the challenging financial position the Council faces with an anticipated funding gap of £47.8 million over the four years of the plan.</p> <p>As part of the budget setting process for 2016/17, the Council reviewed the delivery of the 2015/16 savings plans. This review resulted in revision of the anticipated level of savings required up from £12.7m this time last year to £26.6m by March 2017. Plans and identified savings are in place setting out how the required financial position will be achieved.</p> <p>Progress in delivery will be monitored through existing arrangements that the Council have recently strengthened. The Executive Finance Steering Group has been established, chaired by the Chief Executive, to oversee delivery of the savings targets.</p> <p>The delivery of the required savings and the establishment of revised financial governance arrangements represent a significant challenge to the Council.</p>	<p>We reviewed the Council's arrangements for identifying and agreeing savings plans alongside the communication of key findings to the Executive Board and Council.</p> <p>We reviewed the financial governance arrangements established by the Council and considered how the Council is managing and monitoring these key financial risks.</p>	<p>The Council continues to have appropriate arrangements in place to manage and report the delivery of the revenue budget. The Council has a detailed Medium Term Financial Strategy (MTFS) 2016/17 – 2019/20 in place that is updated on a rolling basis. The 2016/17 revenue budget and the MTFS were reviewed and updated ahead of presentation to the Council Forum on 29 February 2016. The MTFS sets out a need to secure savings of £47.8m by 2019/20.</p> <p>A balanced budget has been set for 2016/17 with the budget report to Members setting out details of the £26.6m savings requirement. The budget includes the planned use of £3.2m of reserves to support the savings programme in 16/17 with the MTFS setting out a further £200k contribution from reserves required in 17/18. The 18/19 and 19/20 budgets currently do not include the planned use of reserves.</p> <p>Annually, the Director of Finance and IT (DoF & IT) reports to Members on the adequacy of the proposed level of financial reserves. In the 2016/17 risk assessment the DoF & IT concluded that there is a requirement to maintain a £4.0 million "unallocated reserve" to provide financial resilience in the event of unexpected spending pressures. The General Fund (unallocated reserve) decreased to £5.067m at 31 March 2016 although it remains above the minimum level recommended by the DoF & IT.</p> <p>The Council overspent by £6.564m on the original 2015/16 portfolio budgets with the majority of the overspend attributable to Adult Social Care. The Council has been working with an external partner to identify and deliver efficiency savings in this area. However, increasing demand and the increased complexity of service user need, continue to present a significant pressure resulting in an on-going overspend. As a consequence a full review of the Adult Social Care budget was undertaken during the year and the budget has been rebased with an increase of approximately £4m for 2016/17 and beyond.</p>

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Work to address	Findings and conclusions
<p>Financial position and future year savings</p> <p>(continued)</p>	<p>We reviewed the Council's arrangements for identifying and agreeing savings plans alongside the communication of key findings to the Executive Board and Council.</p> <p>We reviewed the financial governance arrangements established by the Council and considered how the Council is managing and monitoring these key financial risks.</p>	<p>For much of 2015/16, financial monitoring information for the overall Council position and individual portfolios was considered by the Executive Finance Steering Group on a monthly basis. This group included the Chief Executive, Executive Directors, the Director of Finance and IT and the two Heads of Service in Finance (People and Corporate/PLACE). The group also provided additional scrutiny and challenge around Adult Social Care (ASC) in respect of monitoring the financial position and operational activity with the ASC Director and ASC Head of Service on a regular basis. Following restructure of the Executive Management Team, revised arrangements were established toward the end of the year and remain in place for 2016/17.</p> <p>Policy Development Sessions (PDS) are held monthly with each Executive Member and are attended by the Chief Executive and the Deputy Chief Executive. At these meetings detailed reviews of the financial position and savings plans are considered. Progress against the delivery of savings plans form a key part of the discussion.</p> <p>The Council's detailed savings programme is assigned to Directors, working with their Management Teams to oversee delivery. Progress is monitored at a Directorate level and at each fortnightly Senior Management Team meeting an update is provided and a review of the budget is a standing item.</p> <p>Each department has a RAG rated Savings Plan in place alongside a monitoring return. Regular monitoring of these returns is undertaken and they are updated to show progress made, slippage and areas for concern. For Adult Social Care, detailed monitoring is undertaken within their Senior Leadership Team and separate meetings are held with key operational managers, particularly around high risk areas such as Commissioning budgets.</p> <p>We concluded that the Council has proper arrangements to plan finances effectively and provide reliable financial reporting to support the delivery of its strategic priorities. Overall, the Council has responded appropriately to the challenging financial environment during the year and has set out in the MTFS a clear view of what needs to be done in 2016/17 and beyond.</p>

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Any other matters

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

Section 4: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

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

Fees

	Proposed fee £	Final fee £
Council audit	102,839	102,839
Grant certification	15,413	15,413
Total audit fees (excluding VAT)	118,252	118,252

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

Grant certification

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

You have also engaged us to provide an Accountants' reasonable assurance report in connection with:

- Teachers' Pensions return for the year ended 31 March 2015; and
- the Local Transport Plan Major Projects for the year ended 31 March 2015.

Fees for other services

Service	Fees £
Audit related services:	
• Certification of Teachers' Pension Return 2014/15	4,200
• Local Transport Plan Major Projects – 2014/15	4,100

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 Auditing Practices Board'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. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

Communication to those charged with governance

International Standards on Auditing ISA (UK&I) 260, as well as other 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 Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment>).

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 at the time of our appointment. 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 NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). 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.

Our communication plan	Audit Plan	Audit Findings
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		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendix

Appendix A: Audit opinion

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 (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves 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 2015/16.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. 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 Director of Finance and IT and auditor

As explained more fully in the Statement of the Director of Finance and IT Responsibilities, the Director of Finance and IT 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 2015/16, which 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 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 circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance and IT; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report and the Annual Governance Statement 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:

- present a true and fair view of the financial position of the Authority as at 31 March 2016 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 2015/16 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in '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 24 of the Act; or
- we make a written recommendation to the Authority under section 24 of the Act; or
- we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

Respective responsibilities of the Authority and 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 20(1)(c) of the Act to be satisfied that the Authority has made 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 the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code in satisfying ourselves whether the Authority put in place proper arrangements to secure value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

We planned our work in accordance with the Code. 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 has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, we are satisfied that in all significant respects the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

Certificate

We certify that we have completed the audit of the accounts of the Authority in accordance with the requirements of the Act and the Code.

Karen Murray
Director for and on behalf of Grant Thornton UK LLP, Appointed Auditor

4 Hardman Square
Spinningfields
Manchester
M3 3EB

Xx September 2016



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