

The Annual Audit Letter for Blackburn with Darwen Council

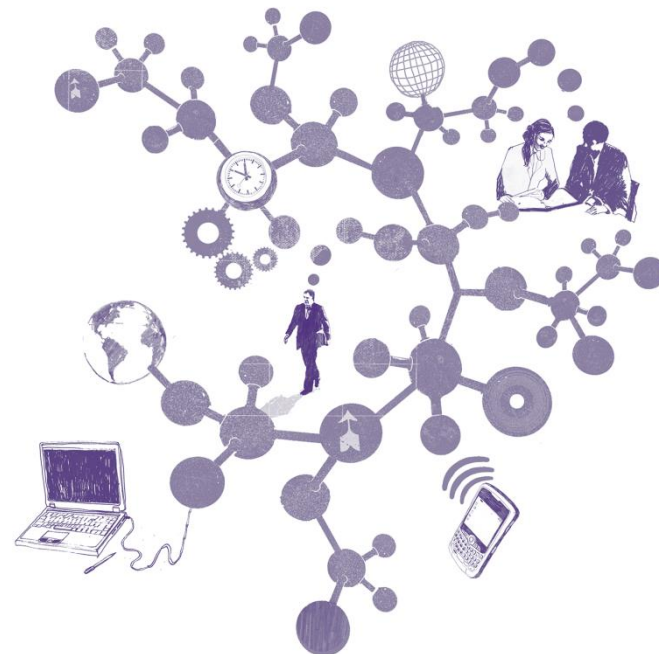
Year ended 31 March 2016

October 2016

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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Blackburn with Darwen Council (the Council) for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to the Council and its external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit Committee as those charged with governance in our Audit Findings Report on 20 September 2016.

Our responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 23 September 2016.

Value for money conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016. We reflected this in our audit opinion on 23 September 2016.

Whole of government accounts

We completed work on the Council's consolidation return following guidance issued by the NAO and issued an unqualified report on 12 October 2016

Certificate

We certified that we had completed the audit of the accounts of Blackburn with Darwen Council in accordance with the requirements of the Code on 23 September 2016.

Certification of grants

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2016. We will report the results of this work to the Audit Committee in our Annual Certification Letter.

Other work completed

Council Finance staff attended a workshop we provided in November 2015 on the early closure of local authority accounts. Council Finance staff also attended a workshop we provided jointly with CIPFA in February 2016 covering changes to accounting standards and the Code of Practice, and emerging issues and future developments, to support officers involved in the preparation of the Financial Statements.

Working with the Council

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
October 2016

Audit of the accounts

Our audit approach

Materiality

In our audit of the Council's accounts, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Council's accounts to be £8,878,000, which is 2% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

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:

- Officers' remuneration, salary bandings and exit packages
- Members allowances
- Auditor remuneration
- Related Party transactions

The scope of our audit

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes assessing whether:

- the Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts on which we give our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based. We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
<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. 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 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; 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>We did not identify any issues to report</p>
<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>As part of our audit work we:</p> <ul style="list-style-type: none"> • reviewed entity controls in relation to journal transactions • tested journal entries • reviewed accounting estimates, judgements and decisions made by management • reviewed unusual significant transactions <p>We did not identify any issues to report</p>

Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
<p>Valuation of property, plant and equipment 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>As part of our audit work we:</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>We identified a weakness in the process in place to revalue assets that have been subject to capital additions during the year. We established that the value of assets affected was not material. We recommended the Council review the dates of completed valuations against the planned programme of capital additions to ensure an accurate position is reported.</p>

Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
<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>As part of our audit work we have:</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>We did not identify any issues to report.</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 23 September 2016, in advance of the 30 September 2016 national deadline.

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. The draft accounts were prepared to a good standard and supported by working papers. We will continue to work with Finance staff to identify further improvements to the efficiency of the accounts production and audit processes to enable the earlier deadlines for 2017/18 to be met, which will require councils to bring forward the approval and audit of financial statements to 31 May and 31 July respectively.

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

- there were 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

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Council to the Audit Committee on 20 September 2016.

Annual Governance Statement and Narrative Report

We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council. We agreed a small number of amendments to the Narrative Report that were corrected ahead of the issue of our audit report.

Whole of Government Accounts (WGA)

We carried out work on the Council's consolidation schedule in line with instructions provided by the NAO. We issued a group assurance certificate which did not identify any issues for the group auditor to consider.

Other statutory duties

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We did not identify any issues that required us to apply our statutory powers and duties under the Act. We did not receive any objections from electors to the 2015-16 accounts. There were no circumstances that required us to issue a public interest report in respect of our 2015/16 audit.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2015 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work. The key risks we identified and the work we performed are set out in table 2 overleaf.

Overall VfM conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016.

Looking Ahead

Overall, the Council has responded positively 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 to 2019/20.

Appropriate arrangements are in place to plan finances effectively alongside reliable financial reporting to support the delivery of the Council's strategic priorities. As a result, the Council has successfully delivered the savings required to date. However, the challenges faced going forwards are arguably getting tougher.

The Council recognises that it continues to face significant financial challenges going forward. The 2016/17 quarter 1 (June 2016) revenue monitoring report sets out key assumptions and challenges and provides an early update that a number of specific savings plans will not be achieved in 2016/17. Action plans are now in place to address these shortfalls. A sustained focus on delivering these actions will be required.

Value for Money

Table 2: Value for money risks

Risk identified	Work carried out	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:</p> <ul style="list-style-type: none"> the Council's arrangements for identifying and agreeing savings plans alongside the communication of key findings to the Executive Board and Council We reviewed the financial governance arrangements established by the Council and considered how the Council is managing and monitoring these key financial risks. 	<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 the 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> <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>

Value for Money

Table 2: Value for money risks

Risk identified	Findings and conclusions
Financial position and future year savings - continued	<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>

Working with the Council in 2016/17

We will continue to work closely with you during 2016/17 with a particular focus on important accounting developments, with timely feedback on any emerging issues.

Highways Network Asset

The Code of Practice on Local Authority Accounting (the Code) requires authorities to account for Highways Network Asset (HNA) at depreciated replacement cost (DRC) from 1 April 2016. The Code sets out the key principles but also requires compliance with the requirements of the recently published Code of Practice on the Highways Network Asset (the HNA Code), which defines the assets or components that will comprise the HNA. This includes roads, footways, structures such as bridges, street lighting, street furniture and associated land. These assets should always have been recognised within Infrastructure Assets.

The Code includes transitional arrangements for the change in asset classification and the basis of measurement from depreciated historic cost (DHC) to DRC under which these assets will be separated from other infrastructure assets, which will continue to be measured at DHC.

This is expected to have a significant impact on the Council's 2016/17 accounts, both in values and levels of disclosure, and may require considerable work to establish the opening inventory and condition of the HNA as at 1 April 2016.

Under the current basis of accounting values will only have been recorded against individual assets or components acquired after the inception of capital accounting for infrastructure assets by local authorities. Authorities may therefore have to develop new accounting records to support the change in classification and valuation of the HNA.

The nature of these changes means that Finance officers will need to work closely with colleagues in the highways department and potentially also to engage other specialists to support this work.

Some of the calculations are likely to be complex and will involve the use of external models, a combination of national and locally generated rates and a number of significant estimates and assumptions.

We have met with the Council to consider the accounting, financial reporting and audit assurance implications arising from these changes. We have shared Client Briefings with Officers. This significant accounting development is likely to be a significant risk for our 2016/17 and we will continue to meet with Officers and issue further briefings during the coming year to update the Council on key developments and emerging issues.

The audit risks associated with new developments and the work we plan to carry out to address them will be reflected in our 2016/17 audit plan.

We will also continue to work with you and support you over the next financial year through our focus on:

- **An efficient audit** – continuing to deliver an efficient audit
- **Improved financial** processes – we will focus our work on the actions and measures you put in place to achieve the required savings.
- **Understanding your operational health** – we will continue to focus our value for money conclusion work on the on going financial challenges that the Council faces and monitoring the plans that the Council has in place to deliver the required savings.
- **Audit Updates** – we will continue to provide regular Audit Committee updates covering best practice and emerging issues in the sector

Appendix A: Reports issued and fees

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

Fees

	Planned £	Actual fees £	2014/15 fees £
Statutory audit of the Council	102,839	102,839	137,119
Housing Benefit Grant Certification	15,413	15,413	23,712
Total fees (excluding VAT)	118,252	118,252	160,831

The 2014/15 grant certification fee reflected work required to certify your 2013/14 Local Transport Grant. The 2015/16 certification fee only relates to the certification of your Housing Benefit Return.

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
Non-audit services	nil

Reports issued

Report	Date issued
Audit Plan	March 2016
Audit Findings Report	September 2016
Annual Audit Letter	October 2016



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