

The Annual Audit Letter for Blackburn with Darwen Borough Council

Year ended 31 March 2017

October 2017

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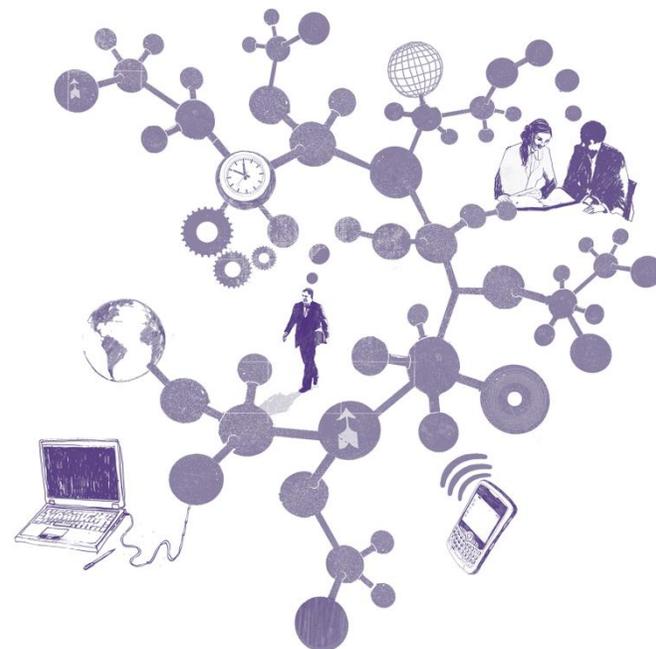
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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work we have carried out at Blackburn with Darwen Borough Council (the Council) for the year ended 31 March 2017.

This Letter provides a commentary on the results of our work to the Council and its external stakeholders, and highlights issues 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 and Governance Committee (as those charged with governance) in our Audit Findings Report on 19 September 2017.

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 as outlined in section two; and
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources, known as the value for money conclusion, as outlined in 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 25 September 2017.

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 2017. We reflected this in our audit opinion on 25 September 2017.

Certificate

We certified that we had completed the audit of the accounts of Blackburn with Darwen Borough Council in accordance with the requirements of the Code on 27 September 2017.

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 2017. We will report the results of this work to the Audit and Governance Committee in our Annual Certification Letter.

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 2017

Audit of the accounts

Our audit approach

Materiality

In our audit of the Council's accounts, we applied the concept of materiality to determine the nature, timing and extent of our work, and to evaluate 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 £8,729k, which is 2% of the Council's gross revenue expenditure in the previous year's audited accounts. 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.

We also set a lower level of specific materiality of £20,000 for related party transactions and senior officer remuneration.

We set a lower threshold of £436,000, above which we reported errors to the Audit and Governance Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance 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 the Director of Finance and IT 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 included in the Statement of Accounts on which we gave 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

Table 1: Accounts Risks - These are the risks which had the greatest impact on our overall audit strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of pension fund net liability</p> <p>The Council's pension fund net liability, as reflected in its balance sheet, represents a significant estimate in the financial statements.</p>	<ul style="list-style-type: none"> We identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. We 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. We undertook procedures to confirm the reasonableness of the actuarial assumptions made. We reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from the Council's actuary. 	<p>We did not identify any concerns arising from this work to report to the Audit and Governance Committee.</p>
<p>Valuation of property plant and equipment</p> <p>The Council undertakes a rolling programme of revaluations of land and buildings. The approach taken to determine the carrying value of Property, Plant and Equipment in the Balance Sheet represents a significant estimate by management in the financial statements.</p>	<ul style="list-style-type: none"> We identified the controls put in place by management to ensure that the carrying value of property, plant and equipment is not materially different from current value at year end and assessed whether these controls are implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. We reviewed management's processes and assumptions for the calculation of the estimate. We reviewed the competence, expertise and objectivity of any management experts used. We reviewed the instructions issued to valuation experts and the scope of their work. We carried out sample testing to obtain assurance over the accuracy of valuations recorded in the Asset Register by tracing the valuations in the register back to reports received from the valuer. We discussed with the valuer the basis on which his valuation had been undertaken and the challenged the key assumptions. We reviewed and challenged the information used by the valuer to inform their valuations to ensure it was robust and consistent with our understanding. We 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 carrying value. 	<p>Following discussion with management, the Council processed changes to the Property, Plant and Equipment note to disclose those assets owned by the Council which met the definition of a surplus asset in accordance with the Code.</p> <p>We obtained the assurances we requested from the valuer regarding the valuation base used as part of the Council's programme of rolling valuations.</p> <p>Management were able to demonstrate that it had appropriate processes in place to ensure that where assets had not been revalued in the year the movement between the date of the last valuation and the Balance Sheet date was not material.</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 25 September 2017, in advance of the 30 September 2017 national deadline.

The Council made the accounts available for audit in line with the agreed timetable, and provided a good set of supporting working papers.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Council to the Council's Audit and Governance Committee on 19 September 2017.

In addition to the key audit risks reported above, we identified the following adjustments during our audit:

- the Council participates in a pooled fund arrangement with Blackburn with Darwen Clinical Commissioning Group. The Council had recognised the full amount of income and expenditure attributable to the pooled fund whereas accounting standards require that the Council recognise only its share of income and expenditure. Adjustments to the financial statements were agreed with management which reduced income and expenditure by £5.84M. There is no overall impact on the Council's financial performance as income and expenditure were reduced by the same amount.
- we agreed with management that the Council had overstated its provision for appeals against the rateable values used to calculate business rates. The overstatement arose from an error in the approach used to exclude duplicate appeals. The overstatement is not material therefore we agreed that the required changes could be processed in the 2017/18 financial year.

Annual Governance Statement and Narrative Report

We are 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.

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 on 27 September 2017.

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 use these powers.

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 2016 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 risk where we concentrated our work.

The key risk 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 2017.

Table 2: Value for money risks – This is the risk area we identified for detailed consideration in order to provide our VfM conclusion

Risk identified	Work carried out	Findings and conclusions
<p>Delivery of the Financial Plan</p> <p>In February 2016 the Council agreed measures to close the budget gap of almost £48 million over the period of the Medium Term Financial Strategy (MTFS) to 2019/20. Progress has been made during 2016/17 in the implementation of these measures including development and significant delivery of a savings programme and increases in income streams.</p> <p>However, the December 2016 revenue monitoring report set out that the Council continues to face significant financial pressures and forecast an overspend of approximately £1.683 million across all portfolios for 2016/17.</p> <p>The delivery of the required savings in 2016/17 and beyond represented a significant challenge to the Council.</p>	<ul style="list-style-type: none"> • We reviewed the details to support the required savings in 16/17 including financial and budget reporting to members • We assessed the outturn position for 2016/17 and the budget plans for 2017/18 to 2019/20 • We met with key officers to discuss plans/proposals 	<p>The Council has had arrangements in place for a number of years to drive changes to its models of service provision in order to reduce net expenditure to cope with sustained reductions in central government funding.</p> <p>For 2016/17 the Council's savings target was £13.8m. There were three principal elements to the target:</p> <ul style="list-style-type: none"> • £6.7m related to the second year of a three-year £26m savings programme which started in 2014; • £3.6m of in-year savings; and • £3m of savings relating to a workforce review. This forms part of a £15m savings programme covering the 2016/17 and 2017/18 financial years. <p>Management reported to members in the outturn report in July 2017 an overspend on cash-limited expenditure of £1.434m, equivalent to 1.25% of the budget. This was mainly due to continuing pressure on the Health and Adult Social Care Directorate. This overspend has been funded from the Council's reserve balances.</p> <p>However, changes to the Council's minimum revenue provision policy, one-off government grant receipts and the release of contingencies meant that, even after covering this overspend, the unallocated reserve balance at the year-end was £1.2m more than that forecast in February 2017. Total unallocated reserves, as at 31 March 2017, are £6.189m.</p> <p>During the year, work has been undertaken by senior officers to develop robust mechanisms for making further savings. Internal project management support is in place across the Council to ensure savings plans are subject to appropriate review and challenge. For 2017/18, the workforce review is expected to generate savings of £6.278m which equates to 50% of the required savings for the year. However, internal reporting at March 2017 suggested this target will be challenging because some of the savings schemes are still at a relatively early stage of development. We understand management are continuing to assess whether the original savings can be realised or whether alternative savings schemes will need to be put in place.</p> <p>The Council recognises the challenges facing the Health and Adult Social Care directorate. The 2017/18 budget has therefore increased by £3m from the amount in the Medium Term Financial Strategy presented in February 2016. The demand and cost pressures facing the directorate mean that savings will still need to be found to contain expenditure within the budget allowed.</p>

Value for Money

Risk identified	Work carried out	Findings and conclusions (continued)
		<p>The Council is working with its partners in the NHS to take forward changes in the wider system intended to reduce service users' level of dependency and make more effective use of the available resource. The Government announced a £3.590m increase to the Improved Better Care Fund for 2017/18 in the Spring Budget, i.e. after the Council had set its budget. This funding is non-recurring although amounts of £2.186m and £1.081m will be paid in 2018/19 and 2019/20 respectively but again on a non-recurring basis. The Council and Blackburn with Darwen CCG have been working together with health and adult social care colleagues across Pennine Lancashire to develop proposals to utilise this funding to meet increasing adult social care needs, to reduce pressures in the NHS and to stabilise the social care provider market across the borough.</p> <p>Given the financial pressures from increasing demand, management needs to ensure that all directorates remain focused on delivering the savings set out in the MTFs.</p>

Appendix A: Reports issued and fees

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

Fees

	Proposed fee £	Actual fees £	2015/16 fees £
Statutory audit of Council	102,839	102,839	102,839
Grant Certification	14,910	14,910	15,413
Total fees (excluding VAT)	117,749	117,749	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'.

Reports issued

Report	Date issued
Audit Plan	11 April 2017
Audit Findings Report	19 September 2017
Annual Audit Letter	17 October 2017

Fees for other services

Service	Fees £
Audit related services:	
<ul style="list-style-type: none"> Independent reasonable assurance report in respect of 2015-16 Teachers Pension Return (work completed November 2016) 	4,200
<ul style="list-style-type: none"> Independent reasonable assurance report in respect of 2015-16 Regional Growth Fund claim (work completed September 2016) 	2,100
<ul style="list-style-type: none"> Independent reasonable assurance report in respect of 2015-16 Transport Grant (work completed December 2016) 	3,875
<ul style="list-style-type: none"> Independent reasonable assurance report in respect of 2016-7 Regional Growth Fund claim (work completed June 2017) 	2,350
<ul style="list-style-type: none"> Independent reasonable assurance report in respect of 2016-17 Teachers Pension Return (service agreed in principle, due to be completed by 30 November 2017) 	4,200 (estimated)
Non-audit services	
<ul style="list-style-type: none"> Subscription to Grant Thornton's Place Analytics and Chief Finance Officer Insights software (three-year subscription agreed which commence from 1 April 2017). 	24,000 (for 2017-18 subscription)
Total Fee for Other Services	40,725

Non-audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table above summarises all other services which were identified.
- We have considered whether other services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place, as set in the table on the following page.

Reports issued and fees continued

We have considered whether other services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards have been applied to mitigate these risks.

	Service provided to	Fees	Threat identified	Safeguards
Audit related services				
Independent reasonable assurance reports in respect of: Teachers Pensions (2015/16 and 2016/17) Regional Growth Fund (2015/16 and 2016/17) Transport Grant (2015/16 only)	Blackburn with Darwen Borough Council	16,725	Self-interest	The fees in respect of Teachers Pension are recurring at an estimated £4,200 per annum. The fees relating to the Regional Growth Fund and the Transport Grant are non-recurring for future financial years as the associated projects have now ended. Therefore, while the recurring nature of the fee for Teachers Pensions presents a self-interest threat this is not considered a significant threat to independence as the fee for this work of £4,200 in comparison to the total fee for the audit of £117,749 and in particular to Grant Thornton UK LLP's turnover overall. Furthermore, the work is on audit related services, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Non-audit services				
Subscription to Grant Thornton's Place Analytics and Chief Finance Officer Insights software	Blackburn with Darwen Borough Council	24,000	Self-interest	This service is provided by a separate team within Grant Thornton UK LLP. There is no exchange of information relating to the audit between the two teams and therefore no impairment of auditor independence. The Council has agreed to purchase the service for a three-year period which also mitigates the degree of self-interest as there is no risk to the firm of the Council not renewing the subscription.
	TOTAL	£40,725		



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