The Audit Findings
for Blackburn with Darwen Borough Council

Year ended 31 March 2020

16 December 2020

Contents

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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 for the purpose of expressing our opinion on the financial statements. 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 control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. 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.

Headlines

This table summarises the key findings and other matters arising from the statutory audit of Blackburn with Darwen Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2020 for those charged with governance.

Covid-19	The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council. There has still been a need to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020.	We updated our audit risk assessment to consider the impact of the pandemic on our audit and included an additional financial statement risk in respect of Covid -19 within our Audit Plan issued on 5th October 2020 and also highlighted the impact on our VfM approach. Further detail is set out on page 6. Restrictions for non-essential travel has meant that some Council staff, as well as your audit team have had to adapt to new remote working arrangements which has seen a changing in working practices.
Financial Statements	Under International Standards of Audit (UK) (ISAs) and 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 it's income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.	Our audit work was completed remotely during July-December. Our findings are summarised on pages 5 to 16. Three adjustments to the primary financial statements have been made by management resulting in a £4.950m increase in the deficit on provision of services within the Statement of Comprehensive Income and Expenditure, as highlighted on page 24. A small number of disclosure adjustments have also been agreed with officers as detailed on page 25. One unadjusted mis-statement was identified which management chose not to amend as outlined on page 26. The financial statements were prepared to a good standard, and working papers were available on time at the start of the audit. Responses to our samples and other queries were comprehensive and timely. Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion, subject to the outstanding matters listed on page 5. We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited. Our anticipated audit report opinion will be unmodified, including an emphasis of matter paragraph, highlighting property, plant and equipment and pension fund property valuation material uncertainties.

Headlines

This table summarises the key findings and other matters arising from the statutory audit of Blackburn with Darwen Borough Council ('the Council') and the preparation of Council's financial statements for the year ended 31 March 2020 for those charged with governance.

Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	We have completed our risk based review of the Council's value for money arrangements. We have concluded that Blackburn with Darwen Borough Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We have updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VfM risks in relation to Covid-19. We therefore anticipate issuing an unqualified value for money conclusion. Our findings are summarised on pages 17 to 19.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • to certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

Audit approach

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, 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.

Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- an evaluation of the Council's internal controls environment, including its IT systems and controls; and
- substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

We have substantially completed our audit of your financial statements and anticipate, issuing an unqualified audit opinion following the Audit and Governance Committee meeting on 12 January 2021, subject to satisfactory completion of the tasks below.

The key outstanding items include:

- receipt of management representation letter;
- completion of a small number of outstanding audit procedures; and
- review of the final set of financial statements.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality calculations remain the same as reported in our audit plan. We detail in the table below our determination of materiality

	Council Amount	Qualitative factors considered
Materiality for the financial statements	£7.144m	• This equates to 1.8% of your gross operating expenditure for 2019/20 year and is considered to be the level above which users of the financial statements would wish to be aware in the context of overall expenditure.
Performance materiality	£5m	• Based on 70% of materiality derived from the risk of misstatement
Trivial matters	£0.357m	• Based on a 5% of materiality
Materiality for specific transactions, balances or disclosures	Senior employees remuneration - £20,000	

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Covid– 19 The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to; - Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation - Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates - Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and - Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.	We worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported. The draft financial statements were provided on 2 July 2020. We also • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Council's property valuation expert and actuary; • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; • evaluated whether sufficient audit evidence could be obtained through remote technology; • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and pension fund net liability valuations; • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; and • discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence. The results of our work concluded that appropriate arrangements had been put in place to manage the COVID 19 situation which included the Council activating its Corporate Business Continuity Plan and emergency planning protocols through the Lancashire Resilience Forum (LRF). Due to the potential impact that Covid-19 has on the value of your land and buildings at 31 March 2020, your valuer has disclosed a material valuation uncertainty within their valuers report (in line with VPGA 10 of the RICS Red Book Global). You have disclosed this material uncertainty within your disclosure around assumptions made about the future and other major sources of estimation uncertainty. We will reflect your disclosure within an "emphasis of matter" paragraph in our opinion. This is not a modification or qualification of the opinion and is consistent with other audited bodies where the valuer has highlighted a material valuation uncertainty. Similarly, there is also an impact of Covid-19 on the valuation of the Local Government Pension Fund (LGPS) property assets. Lancashire's LGPS accounts include a material uncertainty around the valuation of property assets and the fund auditor intends to include an emphasis of matter in their auditor's report in this regard. Your financial statements disclosures have been updated to reflect this and our audit report will also contain an "emphasis of matter" paragraph relating to this matter.

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
The revenue cycle includes fraudulent transactions Under ISA (UK) 240 there is a rebuttable 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.	**Auditor commentary** As detailed in our Audit Plan, we do not consider this to be a significant risk for Blackburn with Darwen. Having considered the risk factors set out in ISA 240 and the nature of the revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted because: • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; • the culture and ethical frameworks of local authorities, including Blackburn with Darwen mean that all forms of fraud are seen as unacceptable. Therefore and as reported in our Audit Plan, we do not consider this to be a significant risk. Whilst not a significant risk we have performed audit procedures and testing of material revenue items. Our work did not identify any matters that would lead to a change in our risk assessment.
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	**Auditor commentary** We have: • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determined the criteria for selecting high risk unusual journals; • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. Our audit work to date has not identified any evidence of management over-ride of controls.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of land and buildings The Council revalues its land and buildings on a rolling five-yearly programme. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. We therefore identified valuation of land and buildings as a significant risk, which was one of the most significant assessed risks of material misstatement.	**Auditor commentary** We: • reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluated the competence, capabilities and objectivity of the valuation expert; • wrote to the valuer to confirm the basis on which the valuation was carried out; • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding; and • tested revaluations made during the year to see if they had been input correctly into the Council's asset register. **Findings** We are currently finalising our procedures in this area having received responses to a number of queries from the external valuer. Based on completion of procedures to date, we have no matters to report to you, other than those highlighted on page 24, which highlights the omission from the asset register of the revaluation of Darwen Leisure Centre. Having checked all 2019/20 revaluations we are satisfied that this was an isolated error. **Disclosures regarding material valuation uncertainty** The outbreak of Covid-19 has caused uncertainty in property markets. As a result, your valuer has included reference to a material uncertainty in their valuation report. The estimation uncertainty has been highlighted in your disclosure around assumptions made about the future and other major sources of estimation uncertainty We consider the disclosure is sufficiently detailed to meet the requirements of the accounting standards and that it is important to a readers understanding of the financial statements. As such, we plan to draw attention to the uncertainty through the inclusion of an Emphasis of Matter within the audit report. Based on the work performed to date we are satisfied that the value of Property, Plant and Equipment is not materially misstated within the financial statements.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of pension fund net liability The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£265 million in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	**Auditor commentary** We have: • identified the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement; • reviewed of the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuations; • undertaken procedures to confirm the reasonableness of the actuarial assumptions made; and • checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. **Findings** We are aware that the Pension Fund Auditor is planning to include an emphasis of matter in their audit report drawing attention to a material valuation uncertainty relating to the Fund's real estate portfolio. Your financial statements disclosures have been updated to reflect this and our audit report will also contain an "emphasis of matter" paragraph relating to this matter. Subsequent to the publication of the draft financial statements, the proposed remedy to the McCloud judgement was published for consultation. The Actuary has notified management that their approach when calculating the past service cost in respect of McCloud/Sargeant in the 2018/19 pension liabilities and the current service cost in respect of McCloud/Sargeant in the 2019/20 accounts was in line with the eligibility criteria set out in the published consultation and that the calculations of additional liabilities and service costs are in line with those proposed in the consultation. Note 12 Events after the balance sheet date has been updated to reflect this. Work performed to date, we are satisfied that the value of the pension fund liability is not materially misstated within the financial statements.

Significant findings - other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant deficiencies identified during the year.

Issue	Commentary
IFRS 16 implementation has been delayed to April 2022 Although the implementation of IFRS 16 has been delayed to 1 April 2022, audited bodies still need to include disclosure in their 2019/2020 statements to comply with the requirement of IAS 8 para 31. As a minimum, we would expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases.	The Accounting polices on accounting standards that have been issued but have not yet been adopted has been updated to adequately disclosure of the likely future impact of IFRS16. The draft statements had not included reference to IFRS 16 within this accounting policy. We are satisfied that your updated disclosure is consistent with the requirements of IAS8.

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Land and Buildings (including Surplus assets) - £237.6m	The Council request their valuer to revalue other land and building (opening value £234.7m) on a 5 year cycle, using depreciated replacement cost (DRC) for specialised assets such as schools, libraries, galleries and leisure centres. The remainder of operational other land and buildings are required to be revalued at existing use value (EUV). Surplus assets comprise an opening value of £11.2m and the majority are required to be revalued at fair value, estimated as highest and best use from a market participant's perspective. In 2019/20 the Council revalued £85.95m (39.2%)of other land and buildings and revalued £15.4m (100%) of surplus assets. In line with RICS guidance, the Council's valuer disclosed a material uncertainty in the valuation of the Council's land and buildings at 31 March 2020 as a result of Covid-19. The Council has included disclosures on this issue in its disclosure around assumptions made about the future and other major sources of estimation uncertainty. The total year end net book value of Other land and buildings and Surplus Assets was £237.6m, a net decrease of £8.3m since 2018/19	The Council's valuer identified a material uncertainty regarding the valuation of land and buildings due to market uncertainty arising from the Covid-19 pandemic. **Key observations** The values in the valuation report have been used to inform the measurement of property assets at valuation in the financial statements. The Council has disclosed the estimation uncertainty related to the year-end valuations of land and buildings to the financial statements as set out above. • We assessed the qualifications, skills and experience of the Valuer and determined the service to be appropriate; • The underlying information prepared by the Council and supplied by the Valuer was considered to be complete and accurate; • The Valuer prepared their valuations in accordance with the RICS Valuation – Global Standards using the information that was available to them at the valuation date in deriving their estimates; and • We consider that the level of disclosure in the financial statements to reflect the material valuation uncertainty to be appropriate. All your land and buildings have been appropriately valued by the instructed valuer. There have been no changes in assumptions from the previous years and these are outlined in your accounting policies. **Conclusion** We are satisfied that the estimate of your land and buildings valuation is not materially misstated.	● Green

Assessment

- ● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Net pension liability – £253.1m	The Council's total net pension liability at 31 March 2020 is £253.1m (PY £265.7m) comprising the Local Government Pension Scheme (LGPS). The LGPS is a funded defined benefit scheme administered by Lancashire County Council. The Council uses Mercers to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements..	For the LGPS we have undertaken a review of the relevant actuary's work to satisfy ourselves that the pension liabilities are fairly stated in the financial statements. In doing so we engaged our own independent actuary to assess the methodology and assumptions used by the scheme's actuaries. We have used PwC as auditors expert to assess the key assumptions made by actuary. We have no concerns over the competency, capability and objectivity of the actuary used by the Council. See below for consideration of the key assumptions used by the actuary.	Green

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.4%	2.3%-2.4%	Green
Pension increase rate	2.2%	2.1%-2.2%	Green
Salary growth	3.6%	3.35%-3.6%	Green
Life expectancy – Males currently 65 in 20 years time	25.1	22.5–24.7	Amber
Life expectancy – Females currently 65 in 20 years time	28.2	25.9-27.7	Amber

We have reviewed the assumptions used for each of these variables. Our own independent actuary has also confirmed that they are comfortable that the assumptions used by Mercers are reasonable for the purpose of valuing the liabilities at 31 March 2020.

Assessment

- (Red) We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- (Amber) We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- (Yellow) We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- (Green) We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

Significant matter	Commentary
The most significant events that occurred during the year was the Covid-19 pandemic.	During the audit we have considered the Council's response to addressing the challenges arising from Covid-19, and have seen evidence that management responded swiftly to the challenges of Covid-19.
Business conditions affecting the Council, and business plans and strategies that may affect the risks of material misstatement	The Council's valuation expert has raised uncertainty regarding how the impact of Covid-19 on market conditions may affect land and buildings valuations during 2020/21. The LGPS auditor has reported a material uncertainty around the valuation of the Pension Fund's property assets and Lancashire's LGPS auditor intends to include an emphasis of matter in their auditor's report in respect of the effects of Covid-19 on the valuation of its property holding. As noted earlier this has been disclosed in the financial statements.
Significant matters on which there was disagreement with management, except for initial differences of opinion because of incomplete facts or preliminary information that are later resolved by the auditor obtaining additional relevant facts or information	No disagreements with management occurred during the audit.
Other matters that are significant to the oversight of the financial reporting process.	None to report.

Significant findings – going concern

Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Going concern commentary	Auditor commentary
Management's assessment process Management has provided: • Cash flows up to the period ended 31 March 2022 • Management’s own assessment of going concern • Judgements and assumptions taken	The Council prepared a detailed assessment of going concern which highlighted a range of factors that have been taken into consideration including the Council’s strategic objectives within its Corporate Plan, the 3 year Medium Term Financial Strategy (2019-22), consideration of government policy and legislative changes, forecasts and budgets, working capital and cash flow, and risk management. The budget for 2020/21 had been finalised and submitted in February 2020 however in late March 2020 the global pandemic of Covid-19 was announced affecting the economy and public sector bodies. The short term effects of the global pandemic has resulted in increased costs for public service bodies to meet the needs of the public and uncertainty over future funding as the government looks to support a decline in the economy. This therefore affects the short to medium term budget forecasts for the Council as budget submissions had been made based on a number of assumptions at the time. Management has assessed Covid-19 within its current forecasts. The Council is tracking all areas of increased expenditure and loss of income due to the pandemic as part of the MHCLG monthly return process. The Council is monitoring its cash flow forecasts and short-term borrowing has been, and will continue to be, scheduled in order to meet the Council’s cash flow needs. Cash flow forecasts have been prepared covering the period to 31 March 2022. These are updated daily as more accurate information becomes available, and the estimates become actuals. The forecasted cash flow shows a projected cash balance at 31/3/2021 £16.359m and as at 31/2/22 a forecasted cash balance of £14.772m.
Work performed Management have provided us with a written assessment of going concern which we have reviewed in conjunction with cash flow forecasts and the MTFS.	Our work included: • determining whether the conclusions made by the management regarding the decision not to disclose any going concern material uncertainties in the financial statements were prudent and appropriate; • we have reviewed management’s assessment in the light of the Council’s position and the national context and assessed the underlying assumptions used to support management’s preparation of the accounts on a going concern basis; • reviewing cash flow forecasts up to March 2022 to assess the existence of any material uncertainties related to going concern.
Concluding comments	Based on the audit work performed over the going concern assumption adopted by management, we are satisfied that it remains appropriate for the Council to prepare accounts on a going concern basis as at 31 March 2020. The Council have a reasonable expectation that the services they provide will continue for the foreseeable future. For this reason we consider it appropriate for the entity to continue to adopt the going concern basis in preparing the financial statements. We do not consider there to be a material uncertainty which would cast doubt on the ability of the entity to continue as a going concern.

Other matters for communication

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Auditor commentary
Matters in relation to fraud	• We have previously discussed the risk of fraud with the Audit and Governance Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	• We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	• You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	• A letter of representation has been requested from the Council.
Confirmation requests from third parties	• We requested from management permission to send confirmation requests to bank and investment counter-parties. This permission was granted and the requests were sent. Where requests were returned these all included with positive confirmations, where responses were not obtained alternative procedures were performed and appropriate assurance obtained.
Disclosures	• Our review identified three amendments to the financial statements, as identified on page 24, with a small number of disclosure, presentational and consistency amendments also being made to the financial statements arising from the audit.
Audit evidence and explanations/significant difficulties	• All information and explanations requested from management was provided.

Other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect.
Matters on which we report by exception	We are required to report on a number of matters by exception in a numbers of areas: • 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 other information of which we are aware from our audit • If we have applied any of our statutory powers or duties We have nothing to report on these matters.
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA audit instructions. Note that work is not required as the Council does not exceed the threshold.
Certification of the closure of the audit	We intend to certify the closure of the 2019/20 audit of Blackburn with Darwen Borough Council in the audit report

Value for Money

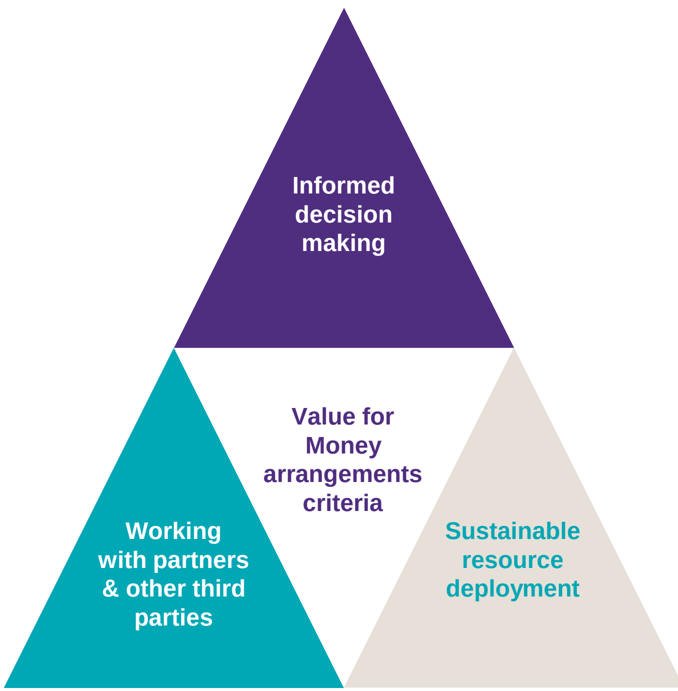
Background to our VFM approach

We are required to satisfy ourselves that the Council has made 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. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. AGN 03 identifies one single 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."

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in July 2020 and identified two significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 5th October 2020.

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 risk we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Our work

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 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 pages 18-19.

Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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.

Value for Money

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	Findings	Conclusion
Financial Sustainability The Council faces increasing financial pressures and in year budget monitoring reports highlighted a number of directorates with significant overspends. In addition, the Revenue Budget report for 2019/20 indicated the need to address cost pressures and a budget gap of £8.2m in 2019/20. We will review the arrangements that are in place for the regular monitoring of the in year financial position and assess how the future financial challenges including the need to deliver savings are being addressed.	Budget monitoring reports are produced quarterly and are taken to the Executive Board attended by both Members and the senior management team. Review of the December 2019 budget monitoring report and the March 2020 outturn report shows that the reports set out the current forecasted net outturn expenditure position by portfolio along with details of the actual revenue expenditure in relation to controllable budgets, with narrative around the reasons for any under or overspends against budget. Separate quarterly reports are also produced on the capital programme including a summary of new capital schemes approved. Any significant areas of expenditure slippage are summarised and there is informative narrative provided. Other financial information is provided on a quarterly basis within the reports including detail on the latest debtors and creditors position, along with a summary of borrowings and investments. The outturn financial performance for 2019/20 shows an overspend against portfolio budgets of £5.312 million at 31st March 2020 which has been funded through the Council's reserves. The overall level of usable reserves is £41.647m, including £7.2m General Reserves, £28.6m earmarked reserves and £5.8m capital grants unapplied. This compared with total usable reserves in 18/19 of £40.1m The 2020/21 Budget and MTFS 2020-2023 approved by Finance Council in February 2020 set a balanced budget for the year based on the assumptions made at that time. Since then, the Covid-19 pandemic has created a significant shock to the economy and resulted in significant, unplanned expenditure and income losses for the Council, which has been reported to the Executive Board and Council Forum. Work will continue over the coming months to monitor and forecast the costs and savings associated with both the pandemic and any other emerging budget pressures. In the meantime, arrangements are in place to scrutinise all existing expenditure plans and Executive Members and Directors are working to develop potential savings options for consideration. The Council has risen to the challenge of the Covid-19 pandemic and put in place arrangements to manage it including working closely with the Lancashire Resilience Forum (LRF). Given the recent government announcements around additional financial support to councils whilst there remains some very significant challenges ahead the Council is equipped to deal with these.	We conclude that there are appropriate arrangements in place for the in year reporting and monitoring of the financial position.

Value for Money

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	Findings	Conclusion
Implementation of regulator recommendations		
The Council has been subject to a number of inspections and focused visits by external inspectors during 2019/20. It is essential that recommendations are acted upon in a timely manner to ensure quality services are delivered. We will review the arrangements the Council has implemented to ensure recommendations raised by inspectors are appropriately considered and addressed.	Two inspection reports/ letters had been issued to the Council during 2019/20 relating to a focused visit into Children's Services (March 20) and a joint inspection to judge the effectiveness of the area in implementing the disability and special educational needs reforms as set out in the Children and Families Act 2014. (SEND inspection). A series of findings/recommendations arose from both inspections. Our review of the arrangements taken to address the issues raised from both inspections showed that a number of actions have occurred and evidence has been provided which demonstrates the Council has taken seriously the findings from the inspections. Actions to address points raised include development of action plans, targeted training, revision of strategies, advice for staff, creation of specific documents to record how key decisions are made.	Based on our review we conclude that the Council has put in place appropriate arrangements to ensure recommendations raised by the inspectors are appropriately considered and addressed.

Independence and ethics

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

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

Independence and ethics

Audit and 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 following non-audit services were identified as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing Benefit Claim	10,450	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £10,450 in comparison to the total fee for the audit of £90,186 (after fee variations) and in particular relative to Grant Thornton UK LLP's turnover overall. Further, 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. To mitigate against the self review threat, the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Certification of Teachers Pension Return	5,700	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £5,700 in comparison to the total fee for the audit of £90,186(after fee variations) and in particular relative to Grant Thornton UK LLP's turnover overall. Further, 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.

Action plan

We have identified two recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2020/21 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
● Medium	**Heritage Assets** Testing identified that the register of heritage assets had not been updated to reflect some recent valuations and that there was also an absence of an audit trail to support some the valuations. We have been provided with an analysis showing that the valuation of heritage assets was understated in the Council's accounts by £1.327m. We have seen evidence to support £0.392m of this figure. There is a need to ensure that where recent valuations are obtained supporting information is provided to Finance Section for the register of heritage assets to be updated in a timely manner. This is described further on page 26.	There is a need to ensure that when Heritage assets are revalued all the relevant supporting information is passed to the Finance Section so that their records can be updated in a timely manner. Where there has been significant movement in asset values the Council should consider obtaining further valuations for similar types of heritage assets **Management response** Management agree to work more closely with the Arts and Heritage Manager to ensure that relevant and up to date records are available to support all revaluations of Heritage Assets. The Council's accounting policies provide for the schedule of Heritage Assets to be reviewed each year and adjusted for additions and deletions or impairments (e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity), with formal valuations being provided when items are being loaned out to other organisations or where it is considered that there has been a material change to the condition of an asset.
● Medium	**Fixed Asset Register** Our audit work identified that the revaluation dates included in the Council's fixed asset register were not accurate and as a result Note 13 had to be amended.	The Council should undertake an exercise to ensure that the fixed asset register is accurate and up to date. **Management response** The recommendation is accepted however the individual records of the revaluation dates held within the Civica asset register are 'incomplete' rather than 'inaccurate', as they only include the dates for revaluations carried out since the Fixed Asset module of the Civica system was implemented approximately two years ago. In addition, in cases where an asset is enhanced (e.g. due to capital expenditure) but is not revalued during the year, the system creates a "revaluation date" of 31st March, which is not a true reflection of when the asset was last formally revalued. As the data to populate the revaluation table in Note 13 is not easily obtainable at present, we have compiled a manual record of all the actual revaluation dates to enable verification of the relevant dates for the purposes of this disclosure.

Controls

- ● High – Significant effect on control system
- ● Medium – Effect on control system
- ● Low – Best practice

Follow up of prior year recommendations

We identified the following issues in the audit of the Council's 2018/19 financial statements, which resulted in four recommendations being reported in our 2018/19 Audit Findings report. We are pleased to report that management have implemented all of our recommendations.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	The Council's financial statements included approximately £23m of internal recharges within the CIES. Given the inclusion of recharges there is a risk of material misstatement if the removal does not occur in future years. The Council should ensure the accounting system allows for easy removal of all recharges in future year.	New journal codes for recharges have been introduced since the issue was reported last year. This year we have identified that only valid recharges remained related to schools.
✓	The Council's s151 officer input a number of journals in 2018-19. Our review of these journals confirmed that these related to reclassifications within the ledger, and there was no evidence of management override of control. However, senior officers' ability to process journal entries increases the risk of management override of controls. The Council should consider restricting the access levels in the main accounting systems to prevent senior management from inputting journals.	Our 2019/20 journals audit work has not highlighted any instances where senior management have input journals, since this issue was reported last year. Certain journal access levels for the Council's s151 officer have now been disabled.
✓	The Council's Narrative Report presented to audit did not fully comply with the Code, particularly in relation to performance issues. The Narrative Report is covered within our audit opinion and any non-compliance results in the risk of a modification of the opinion. The Narrative Report should be considered as a whole Council commentary, with involvement of finance, performance and service teams.	No similar issues have been identified from our review of the Narrative Report this year, other than the issue highlighted on page 25.
✓	The Council's MTFS highlighted that there continues to be risks in relation to its financial position. By the end of 2021/22 there is a gap of £6.6m, though other scenarios have been considered which suggest the gap may be higher. The Council needs to continue to focus on efficiencies and transformation to achieve savings.	The recommendation last year was based on the budget gap as presented to the Finance Committee in February 2019. Since then the Council has been working hard to try and close the gap over the course of 20/21, but clearly events have moved on since the original assessment both within the Council but also at a national level with regards to funding.

Assessment

✓ Action completed

X Not yet addressed

Audit adjustments

We are required to report all non-trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2020.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000
Conversion of School to Academy status Correction of accounting treatment of the transfer of Blackburn Central High School and Crosshill School to academy status - initially treated as a downward revaluation rather than a disposal of land and buildings. Disclosure amendments have also been made to the Cash Flow Statement, Note 13 (Property Plant and Equipment) to reclassify the transaction as a disposal rather than as a revaluation decrease and to Note 30 (Revaluation Reserve and the Capital Adjustment Account).	-18,996 (Children Young People and Education - gross expenditure) + 19,296 Other Operating Expenditure - Loss on disposal		+300
Darwen Leisure Centre Revaluation Adjustment to correct a 2019/20 revaluation gain on Darwen Leisure of £3.135m. This revaluation gain was not correctly actioned in the Council's asset register and as a result land and buildings and the revaluation reserve were both understated by £3.135m. Disclosure amendments have also been made to the Movement in Reserves Statement. Having checked all 2019/20 revaluations we are satisfied that this was an isolated error.	-159 (Health and Well Being – gross expenditure)	3,135 (Property, Plant and Equipment) -3,135 (Unusable Reserves)	-159
Surplus asset revaluation Correction of accounting treatment for Surplus Assets where revaluation increases had been posted to the Comprehensive Income and Expenditure Statement (Net Cost of Services) rather than to the Revaluation Reserve. Disclosure amendments have also been made to the Movement in Reserves Statement, Note 13 (Property, Plant and Equipment) and to Note 30 (Revaluation Reserve and the Capital Adjustment Account).	+4,809 (Finance & Governance - gross expenditure)		+4,809
Overall impact	**£4,950**	**Nil**	**£4,950**

Audit adjustments

Misclassification 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.

Disclosure omission	Detail	Adjusted?
Narrative Report	The Narrative Report has been updated to reflect the latest financial position in respect of Covid 19.	✓
Note 7 Dedicated Schools Grant (DSG)	There was a classification error of £1.53m on the table summarising details of the Dedicated Schools Grants between the lines highlighting the final DSG for 2019/20 before academy and high needs recoupment, and Academy and high needs figure recouped for 2019/20.	✓
Note 12 Events after the Balance Sheet Date	The note has been updated to reflect pension property fund valuation uncertainties within Lancashire LGPS's financial statements as a result of Covid 19. The note has also been updated to reflect the changes and assumptions made around the proposed remedy to the McCloud judgement and the impact that this had for Blackburn.	✓
Note 13 PPE Revaluations	The table in note 13 highlighting the years when property, plant and equipment revaluations took place has been updated to correctly reflect the current value of assets revalued in the respect years.	✓
Note 26 Financial Instruments	The disclosure analysis of short term borrowings has been updated to ensure that it agrees with the short term borrowings figure on the Balance Sheet. Some of the narrative has been updated in the note to remove reference to IAS 39 terminology. Within Note 26 the Financial Liabilities disclosure covering short term borrowings has been amended to agree back to the £97.079m balance sheet figure for short term borrowing, the note previously disclosed this as £63.314m.	✓
Note 33 Related Parties	The note has been amended to ensure it only includes disclosures of related party transactions relating to Members where the Member has significant control over the organisation listed.	✓
Accounting Policies – Accounting standards that have been issued but have not yet been adopted	The accounting policy has been updated to include reference to IFRS 16.	✓

Audit adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2019/20 audit which have not been made within the final set of financial statements. The Audit and Governance Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement £‘000	Statement of Financial Position £’ 000	Reason for not adjusting
Heritage Assets Heritage assets had been understated in the Balance Sheet by £1.327m as a result of the register of heritage assets not being updated to reflect recent valuations.	0	+£1,327	Not material
Overall impact	**Nil**	**£1,327**	**Not material**

Fees

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

Audit fees	Proposed fee	Final fee
Council Audit	£90,186	TBC
Total audit fees (excluding VAT)	**£90,186**	**TBC**

We set out in out audit plan how the Financial Reporting Council's has set its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and robust testing. This coupled with the recent impact of Covid 19 and the time taken in managing the audit in a more remote working environment, has clearly impacted out work and we will need to review the actual audit inputs required at the conclusion of our work to assess any fee implications arising from this.

In our experience, based on the indications from audits being undertaken to date, the issues highlighted above are increasing the time taken on audits by an average of 25%. We understand from discussions with ICAEW that this is similar to other firms. We are mitigating this as far as possible through reduced travel time and travel costs and will be looking at how we can absorb some of the remaining overrun ourselves. However, it is possible that this will not be sufficient to cover the full additional cost. We are aware that the Council's finances are constrained and we will seek to minimise these costs as best we can and will also consider our performance in delivering to the November deadline. Whilst it is too soon to estimate whether there will be any additional costs to the Council it is important to highlight this matter to you. We will discuss any additional costs with the Council's s151 Officer as we progress further towards the concluding stages of the audit. We hope the explanation above and the recent Redmond report (that indicates that, before the impact of Covid-19 is taken into account, audit fees are under-priced by 25 percent) provides some context to any additional fees and the actions we are taking to mitigate them.

Non-audit fees for other services	Proposed fee	Final fee
Certification of Housing Benefit Claim	£10,450	TBC
Certification of Teachers Pension Return	£5,700	TBC
Total non- audit fees (excluding VAT)	**£16,150**	**TBC**

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