



The Annual Audit Letter for Blackburn with Darwen Borough Council

Year ended 31 March 2020

11 February 2021



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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Blackburn with Darwen Borough Council (the Council) for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the Council and 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 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 the 12th January 2021.

Our work

Respective 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 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 financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Materiality	We determined materiality for the audit of the Council's financial statements to be £7,144,000, which was 1.8% of the Council's 2018/19 gross cost of services.
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 4th February 2021.
Whole of Government Accounts (WGA)	We completed work on the Council's consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.
Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on the 4th February 2021.
Certificate	We certified that we have completed the audit of the financial statements of Blackburn with Darwen Borough Council in accordance with the requirements of the Code of Audit Practice on the 4 th February 2021.

Executive Summary

Working with the Council

The Outbreak of COVID-19, the subsequent lockdown from March 2020, and the on-going restrictions to enable people to work in a Covid-safe manner, has had a significant effect on the Council's officers and on the audit. Fortunately, the Council were able to move quickly to safe remote working for non-front-line staff, rolling out IT equipment and solutions while maintaining operational control.

We have worked with the Council's management teams, adapting our systems to support remote auditing and while some aspects of the audit have been more time consuming than would normally be the case, we have been able to facilitate virtual audit verification of processes, transactions and balances. We have been able to hold 'Teams' meetings with officers and to attend virtual meetings of the Audit and Governance Committee.

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

Grant Thornton UK LLP
February 2021

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the Council's financial statements, 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 the audit of the Council's financial statements to be £7,144,000, which is 1.8% of the Council's 2018/19 gross cost of services. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

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

We set a lower threshold of £357,000, 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 sufficient 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 accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the 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 remainder of the Statement of Accounts to check for consistency with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we obtained was 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 was 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 Financial Statements

Significant Audit Risks

These are the significant 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	Findings and conclusions
<p>Covid-19</p> <p>The global outbreak of the Covid-19 virus pandemic led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expected current circumstances to have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;</p> <ul style="list-style-type: none"> - 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. <p>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.</p>	<p>As part of our audit work 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:</p> <ul style="list-style-type: none"> • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples included 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. 	<p>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).</p> <p>Due to the potential impact that Covid-19 had on the value of your land and buildings at 31 March 2020, your valuer disclosed a material valuation uncertainty within their valuers report (in line with VPGA 10 of the RICS Red Book Global). You disclosed this material uncertainty within your disclosure around assumptions made about the future and other major sources of estimation uncertainty. We reflected 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.</p> <p>Similarly, there was also an impact of Covid-19 on the valuation of the Local Government Pension Fund (LGPS) property assets. Lancashire's LGPS accounts included a material uncertainty around the valuation of property assets and the fund auditor included an emphasis of matter in their auditor's report in this regard. Your financial statements disclosures were updated to reflect this and our audit report also contained an "emphasis of matter" paragraph relating to this matter.</p>

Audit of the Financial Statements

Significant Audit Risks

These are the significant 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	Findings and conclusions
<p>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.</p> <p>We therefore identified valuation of land and buildings as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We:</p> <ul style="list-style-type: none"> • 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. 	<p>Having challenged the Council's valuer on the information and assumptions applied as part of the 2019/20 valuation process, we were satisfied that the valuation of the Council's land and buildings is materially correct.</p> <p>Disclosures regarding material valuation uncertainty</p> <p>The outbreak of Covid-19 caused uncertainty in property markets. As a result, your valuer included reference to a material uncertainty in their valuation report.</p> <p>The estimation uncertainty was highlighted in your disclosure around assumptions made about the future and other major sources of estimation uncertainty</p> <p>We considered the disclosure was sufficiently detailed to meet the requirements of the accounting standards and that it was important to a readers understanding of the financial statements. As such, we drew attention to the uncertainty through the inclusion of an Emphasis of Matter within the audit report.</p> <p>Based on the work performed to date were satisfied that the value of Property, Plant and Equipment was not materially misstated within the financial statements.</p>

Audit of the Financial Statements

Significant Audit Risks

These are the significant 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	Findings and conclusions
<p>Valuation of net pension 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.</p> <p>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.</p> <p>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.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> • identified the controls put in place by management to ensure that the pension fund net liability was 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; • undertook 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. 	<p>We were aware that the Pension Fund Auditor was 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 were updated to reflect this and our audit report also contained an "emphasis of matter" paragraph relating to this matter.</p> <p>Subsequent to the publication of the draft financial statements, the proposed remedy to the McCloud judgement was published for consultation. The Actuary 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 were in line with those proposed in the consultation. Your financial statement disclosures were updated to refer to this.</p> <p>We were satisfied that the value of the pension fund liability was not materially misstated within the financial statements.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

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	Findings and conclusions
<p>Management override of controls</p> <p>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.</p> <p>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.</p>	<p>As part of our audit work we :</p> <ul style="list-style-type: none">• 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• gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and• evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.	<p>Our audit work did not identified any evidence of management over-ride of controls.</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Council's financial statements on the 4th February 2021.

Preparation of the financial statements

The Council presented us with draft financial statements in July in accordance within the agreed timescale, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Council's Audit and Governance Committee on 12th January 2021.

In addition to the key audit risks reported above, we identified the following issues during our audit that we have asked the Council's management to address for the next financial year:

- 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.
- The Council should undertake an exercise to ensure that the fixed asset register is complete, accurate and up to date.
- A small number of adjustments were made to the 2019/20 financial statements in respect of the accounting treatments for the conversion of a school to academy status, a revaluation gain and surplus asset revaluations.

Annual Governance Statement and Narrative Report

We were also required to review the Annual Governance Statement and Narrative Report. These were published on your website as part of the draft Statement of Accounts inline with the national deadline.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements and with our knowledge of the Council.

Whole of Government Accounts (WGA)

We carried out work in line with instructions provided by the NAO. We issued an assurance statement which confirmed the Council was below the audit threshold.

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of Blackburn with Darwen Borough Council in accordance with the requirements of the Code of Audit Practice on the 4th February 2021.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in April 2020 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 risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

Overall Value for Money 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 31st March 2020.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Financial Sustainability</p> <p>The Council faced 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.</p> <p>We reviewed the arrangements that are in place for the regular monitoring of the in year financial position and assessed how the future financial challenges including the need to deliver savings are being addressed.</p>	<p>As part of our work we reviewed the December 2019 budget monitoring report and March 2020 outturn report which showed 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.</p> <p>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.</p> <p>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.</p> <p>The outturn financial performance for 2019/20 showed an overspend against portfolio budgets of £5.312 million at 31st March 2020 which was funded through the Council's reserves.</p> <p>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</p> <p>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.</p> <p>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.</p> <p>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).</p> <p>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.</p>	<p>We concluded that there are appropriate arrangements in place for the in year reporting and monitoring of the financial position.</p>

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Implementation of regulator Recommendations</p> <p>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.</p> <p>We will review the arrangements the Council has implemented to ensure recommendations raised by inspectors are appropriately considered and addressed</p>	<p>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.</p> <p>Our review of the arrangements undertaken to address the issues raised from both inspections showed that a number of actions had occurred and evidence provided which demonstrated the Council had taken seriously the findings from the inspections. Actions to address points raised included development of action plans, targeted training, revision of strategies, advice for staff and creation of specific documents to record how key decisions are made.</p>	<p>Based on our review we concluded that the Council had put in place appropriate arrangements to ensure recommendations raised by the inspectors were appropriately considered and addressed.</p>

A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	October 2020
Audit Findings Report	December 2020
Annual Audit Letter	February 2021

Fees

	Planned £	Actual fees £	2018/19 fees £
Statutory audit	90,186	90,186	79,186
Additional Fee		18,037	10,000
Total fees	90,186	108,223	89,186

Audit fee variation

As outlined in our audit plan, the 2019-20 fee assumed that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following table.

Fee variations are subject to PSAA approval.

Area	Reason	Fee proposed £
PSAA Scale Fee		79,186
Variation per Audit Plan	As reported in the Audit Plan, we adjusted the PSAA scale fee for raising the bar work to meet new requirements of the FRC, additional work to be carried out on Property, Plant and Equipment valuation and pensions liability valuation, new standards and developments, and initial estimate for additional work due to Covid-19.	11,000
Revised Scale Fee per Audit Plan		90,186
Impact of Covid-19	The impact of Covid-19 has led to an increase in work we have to complete and the time it takes to complete this work due to revisiting planning, increased risk around management's assumption and estimates, more detailed work on financial resilience, and remote working.	18,037
Total		108,223

A. Reports issued and fees continued

Fees for non-audit services

Service	Fees £
Audit related services	
Certification of Housing Benefit Claim	10,450
Certification of Teachers Pension Return	5,700
Total	16,150
Non-Audit related services	
- None	Nil

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 non-audit services which were identified.
- We have considered whether non-audit 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.

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor.

