



REPORT TO : Audit and Governance Committee

LEAD OFFICER: Director of Finance

DATE: 18th January 2022

WARD/S AFFECTED: All

Approval of the Statement of Accounts 2020/21

1. PURPOSE

The report outlines the issues arising from the external audit of the Council's 2020/21 Statement of Accounts, and requests Audit and Governance Committee agree arrangements for the approval of the audited accounts prior to their publication, as required by the Accounts and Audit Regulations 2015.

2. RECOMMENDATIONS

Audit and Governance Committee is recommended to

1. Note the outcome of the audit of the Council's financial statements as presented by Grant Thornton in their Audit Findings Report for 2020/21 (previous agenda item).
2. Review the Statement of Accounts for 2020/21 as presented with this agenda and, subject to any minor amendments arising from the outstanding external audit work, give approval to the Statement of Accounts as presented at Appendix B
3. Subject to (2) above, agree that the Chair may sign the Statement of Accounts in consultation with the Director of Finance, on conclusion of the audit.
4. Note the draft letter of representation to the external auditors for which is provided at Appendix A, with the final version to be signed by the Director of Finance and the Chair of the Audit and Governance Committee at the date of issue of the audit opinion.

3. BACKGROUND

The annual statement of accounts is a statutory summary of the Council's financial affairs for the financial year and is prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom. It aims to give clear information on the Council's overall finances and to demonstrate its stewardship of public money for the year.

Draft accounts must be produced and authorised for issue by the Council's Director of Finance by 31 May each year, however, due to the impact of the Covid-19 Pandemic, revised regulations have been issued to extend the statutory audit deadlines for 2020/21 for all local authorities.

The impact for the Council is as follows:

- the publication date for final, audited, accounts moved from 31 July to 30 September 2021.
- the requirement for the public inspection period to include the first 10 working days of June was removed. Instead the public inspection period had to commence on or before the first working day of August 2021.
- this meant that draft accounts had to be approved by 31 July 2021 at the latest.

The 2020/21 draft Statement of Accounts were certified by the Chief Executive (as acting s151 Officer) on 31 July 2021, and subsequently published on the Council's website. The audit of those draft accounts commenced in September 2021 and amendments have been made to the accounts in line with audit findings to date.

Following external audit review, the accounts should be approved by those charged with Governance, having considered the issues raised by the auditors in their Audit Findings Report.

The Accounts and Audit (Amendment) Regulations 2021 require that the audited accounts and opinion are published by 30 September 2021. The external audit of the accounts was not concluded in time to meet this deadline. The delay has arisen due to a combination of factors, including:

- the impact of Covid-19 on both the complexity of the audit and pace at which it can be completed;
- the increased assurance work that auditors are required to carry out nationally with respect to pensions and asset valuations.

This is the case for the majority of local authorities across the country.

In order to comply with the Accounts and Audit Regulations 2015, a notice has been published on the Council's website stating that the statement of accounts cannot currently be published, and confirming that the accounts will be published as soon as reasonably practicable after the receipt of a report from the auditor, which contains the auditor's final findings from their audit, and the issue of their audit opinion.

4. KEY COMPONENTS OF THE 2020/21 STATEMENT OF ACCOUNTS

Local authority accounts are complex due to the need to produce financial statements that address both an accounting framework and a legislative framework. This "dual accounting" approach requires some items to be accounted for in ways that do not reflect how the Council manages its budget.

Narrative Report

This introduction to the accounts provides information about Blackburn with Darwen, including its demographic profile, the Council's political and management structure, its main objectives and strategies and the principal risks that it faces. It provides a summary of the financial position as at 31st March 2021 and how the Council has used its resources to achieve its desired outcomes in line with its objectives and strategies. It also includes a commentary on the key issues affecting the Council over the financial year and the impact on its accounts, together with a brief summary of the content of the accounts.

The Core Financial Statements

The accounts consist of the following core financial statements supported by explanatory notes and the accounting policies applied by the Council in preparing and presenting those financial statements

Comprehensive Income and Expenditure Statement (page 29) - this statement shows the accounting cost in the year of providing services in accordance with the accounting framework provided by international reporting standards, rather than the legislative framework. The Council raises local taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement and the Expenditure and Funding Analysis (Note 1 – pages 33-35).

Analysis of income and expenditure by service in the Comprehensive Income and Expenditure Statement is presented to reflect how the Council is structured and how it monitors and manages its financial performance i.e. by reference to portfolio controllable budgets.

Movement in Reserves Statement (page 30) - this statement shows the movement in the year on the different reserves held by the Council, analysed into “usable reserves” and “unusable reserves”. Also, how those movements are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax for the year. The *Net (increase) / decrease* line shows the true statutory General Fund Balance movements in the year following those adjustments.

The financial performance of the Council is monitored during the year with budget variations being reported as soon as they are identified and the predicted level of reserves adjusted accordingly. The accounting position for the year, as reported in the Comprehensive Income and Expenditure Statement, is a surplus on the provision of services of £14.830 million. After making the required adjustments to reflect the legislative framework, the Movement in Reserve Statement shows an increase in General Fund reserves of £33.312 million in 2020/21, compared to a budgeted contribution to reserves of £0.130 million when the annual budget was approved in February 2020. This final revenue outturn position was reported to the Executive Board on 12th August 2021.

As detailed within the disclosure notes to the accounts, this significant increase in the level of reserves is partially due to the receipt of specific Covid-related funding received from central government which is to be utilised over the 2 year period through to March 2022. In addition, reserves were increased by an overall underspend across Council services, due in part to: reduced demand for some services during the year, service closures with staff redeployed to support Covid-response efforts, accounting for funding received in response to the pandemic, offset by significant loss of income from fees and charges.

Further details of the accounting adjustments made in accordance with proper accounting practice are in Note 3 (pages 37-38).

Balance Sheet (page 31) - this shows the value as at 31st March of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council, which are reported in two categories:

- **Usable reserves** - those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt).
- **Unusable reserves** - these are not able to be used to provide services, and include reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line *Adjustments between accounting basis and funding basis under regulations*.

The total amount of General Fund revenue reserves held by the Council at 31st March 2021 was £69.116 million.

Usable Reserves**31st March 2021
£000**

Earmarked Reserves:

| | |
|---|--------------|
| - set aside for discretionary purposes | 47,665 |
| - held in respect of schools | 12,660 |
| - held in respect of joint arrangements | 418 |
| | <hr/> 60,743 |

Unallocated Reserves

8,373

General Fund Reserves

69,116

Capital Receipts Reserve

0

Capital Grants Unapplied

12,690

Total Usable Reserves

81,806

Details of the movements in reserves are shown in Note 29 to the financial statements (pages 67-72).

The *Other Long Term Liabilities* line of the Balance Sheet includes the long-term element of the liability in relation to the PFI contract for BSF Schools (£59.744 million) and the Local Government Pension Scheme liability of £325.184 million. The pension scheme liability represents the underlying commitments that the Council has in the long term to pay retirement benefits, however, the arrangements for funding means that the financial position of the Council remains healthy with the deficit being made good by increased contributions over the remaining work life of employees as determined by the scheme actuary.

Cash Flow Statement (page 32) - this statement shows the changes in cash and cash equivalents of the Council during the reporting period. It analyses cash flows into those generated by operating activities, investing activities and financing activities. The detail of each category is contained within Note 31 (pages 79-81).

Notes to the Financial Statements (pages 33-84) – the order of the disclosure notes aims to provide a narrative that flows logically, with the initial notes providing information to support the Comprehensive Income and Expenditure Statement and an explanation of how that differs from the portfolio budget monitoring position presented throughout the financial year. Notes 13-31 provide further analysis of the amounts included in the Balance Sheet and Cash Flow Statement, and additional disclosures required by the accounting Code follow at the end of the section. An index of the notes is included at page 2.

Collection Fund (pages 85-87)

This is a supplementary statement which reflects the statutory obligation for billing authorities to maintain a separate fund for transactions in relation to the collection of council tax and non-domestic rates, and the distribution of those sums to the Council and other parties (i.e. central government, the Police and Crime Commissioner for Lancashire and Lancashire Combined Fire Authority). The Collection Fund Income and Expenditure Statement reports a surplus for the year in respect of council tax and a deficit for the year in respect of non-domestic rates. The Fund balance carried forward in respect of both council tax and non-domestic rates will be taken into account when setting future years' budgets.

Accounting Policies (pages 88-107)

In addition to a summary of the main accounting policies applied by the Council in preparing and presenting the statement of accounts, this section includes details of:

- accounting standards issued but not yet adopted
- critical judgements made in applying the accounting policies
- areas where a degree of uncertainty exists due to the use of estimated figures.

5. KEY ISSUES**Audit Findings Report**

The Audit Findings Report, issued by the Council's external auditor, Grant Thornton is provided elsewhere on the Agenda for this meeting and highlights the key findings arising to date from the final accounts audit in order that those charged with governance (i.e. the Audit and Governance Committee) may consider the issues prior to their approval of the Statement of Accounts.

The audit team have identified one audit adjustment to the financial statements published in July 2021 that impacts on the balance sheet, however, there is no overall impact on the reported outturn position of the Council. A number of adjustments have been made in order to correct misstatements and misclassifications and to enhance the Narrative Report and disclosure notes. Further details of these amendments are included within the Audit Findings Report.

One unadjusted misstatement was identified in the Audit Findings Report. This amount has not been adjusted in the 2020/21 Statement of Accounts as it is immaterial to the results of the Council and its financial position as at 31 March 2021.

Letter of Representation

Draft wording for the letter of representation, which the Council is proposing to issue to Grant Thornton, following approval by Audit and Governance Committee, is included at Appendix 1.

6. POLICY IMPLICATIONS

Compliance with accounting standards is fundamental to the Council's organisational delivery priority of delivering a "fit for purpose" organisation.

7. FINANCIAL IMPLICATIONS

There are no direct financial implications arising as a result of this report.

8. LEGAL IMPLICATIONS

The Accounts and Audit (England) Regulations 2015 and The Accounts and Audit (Amendment) Regulations 2021 apply for accounts and reports relating to the financial year 2020/21, and completion in accordance with International Financial Reporting Standards is required in order to comply with both the statutory framework established by the Accounts and Audit Regulations, and proper accounting practices required by Section 21(2) of the Local Government Act 2003.

9. RESOURCE IMPLICATIONS

There are no direct resource implications arising as a result of this report.

10. EQUALITY & HEALTH IMPLICATIONS

There are no equality or health implications arising as a result of this report.

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| VERSION: | 0.01 |
| CONTACT OFFICER: | Julie Jewson, Senior Finance Manager |
| DATE: | 10 th January 2022 |
| BACKGROUND PAPER: | Statement of Accounts 2020/21 |

Draft letter of representation.**Blackburn with Darwen Borough Council****Financial Statements for the year ended 31 March 2021**

This representation letter is provided in connection with the audit of the financial statements of Blackburn with Darwen Borough Council for the year ended 31 March 2021 for the purpose of expressing an opinion as to whether the Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

- i. We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.
- ii. We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.
- iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include the valuation of land and buildings and the valuation of the pension net liability. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.
- vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified

and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

- vii. Except as disclosed in the financial statements:
 - a. there are no unrecorded liabilities, actual or contingent,
 - b. none of the assets of the Council has been assigned, pledged or mortgaged,
 - c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
- ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
- x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The Council's financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
- xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.
- xii. The financial statements are free of material misstatements, including omissions
- xiii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- xiv. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xv. We have updated our going concern assessment. We continue to believe that the Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that:
 - a. the nature of the Council means that, notwithstanding any intention to cease its operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements
 - b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and
 - c. the Council's system of internal control has not identified any events or conditions relevant to going concern.

We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements

Information Provided

- xvi. We have provided you with:
 - a. access to all information of which we are aware that is relevant to the preparation of the Council's financial statements such as records, documentation and other matters;
 - b. additional information that you have requested from us for the purpose of your audit; and
 - c. access to persons within the Council via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic, from whom you determined it necessary to obtain audit evidence.
- xvii. We have communicated to you all deficiencies in internal control of which management is aware.
- xviii. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xix. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xx. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:
 - a. management;
 - b. employees who have significant roles in internal control; or
 - c. others where the fraud could have a material effect on the financial statements.
- xxi. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.
- xxii. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xxiii. We have disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which we are aware.
- xxiv. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

- xxiv. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

- xxv. The disclosures within the Narrative Report fairly reflect our understanding of the Council's financial and operating performance over the period covered by the Council's financial statements.

Approval

The approval of this letter of representation was minuted by the Council's Audit and Governance Committee at its meeting on 18th January 2022. Management will ensure that the final version of the statement of accounts comprising other information, will be provided to us prior to issuance.

The letter must be signed by both the Chair of the Audit and Governance Committee and the Director of Finance