Grant Thornton

Audit Findings for Blackburn with Darwen Borough Council

Year ended 31 March 2021

July 2023

Contents

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. 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.

This Audit Findings 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.

Name : John Farrar
For Grant Thornton UK LLP
Date : July 2023

1. 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 2021 for those charged with governance.

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'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) and Narrative Report is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our findings are summarised on pages 5 to 25.

We have identified a number of adjustments to the financial statements impacting the comprehensive income and expenditure statement, balance sheet and the movement in reserves statement, as outlined on pages 35-37. There are three resultant prior period adjustments in connection with heritage assets, the Council's lease accounting treatment for the shopping centre mall and the classification of LOBO borrowings. Other identified issues are disclosure changes. All changes are highlighted on pages 35-40.

The unadjusted mis-statements, which management chose not to amend as these were not considered material, are outlined on page 37.

Our work audit work is now substantially complete. The only outstanding matters are highlighted below:

- receipt of signed management representation letter.

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.

We expect to issue an unmodified audit report.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have completed our VFM work, and our detailed commentary is set out in the separate Auditor's Annual Report. We are satisfied that the Council have made proper arrangements for securing economy, efficiency and effectiveness in their use of resources.

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.

During the course of our audit we considered four matters raised by members of the public, but did not have cause to exercise any of our additional statutory powers or duties.

We have completed the majority of our work under the Code and expect to be able to certify the completion of the audits when we give our audit opinions.

Significant Matters

We have encountered a number of difficulties in undertaking the audit of the Council's revalued assets, in particular the absence of a clear audit trail summarising assumptions adopted by the valuer and challenges around obtaining suitable supporting evidence.

We did not encounter any significant difficulties or identify any significant matters relating to other aspects of the audit.

2. Financial Statements

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 and the Audit and Governance Committee.

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;
- An evaluation of materiality considering the Council's gross revenue expenditure; 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 identified one other risk since issuing our audit plan, in relation to the valuation of infrastructure assets as outlined on page 11.

Conclusion

Our audit work is substantially complete and we propose issuing an unqualified audit opinion as outlined in Appendix E.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff. As highlighted in our Audit Plan, the impact of the pandemic meant that both your finance team and our audit team faced significant audit challenges at the start of the 2020/21 audit, due to remote access working arrangements. We have worked effectively with your finance staff remotely accessing financial systems, video calling and verifying the completeness and accuracy of information provided remotely by the Council.

2. 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 levels remain the same as reported in our audit plan in October 2021.

We detail in the table opposite our determination of materiality.

	Council Amount (£)	**Qualitative factors considered**
Materiality for the financial statements	6,800,000	Financial performance, focussing on the expenditure.
Performance materiality	4,800,000	Quality of working papers in prior year and client's response to audit processes
Trivial matters	340,000	The amount below which matters would be considered trivial to the reader of the accounts.
Materiality for senior officer remuneration	20,000	Materiality has been reduced for remuneration disclosures due to the sensitive nature and public interest.

2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
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, this was one of the most significant assessed risks of material misstatement.	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; • identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration; and • gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness. A sample of journals was selected based on consideration of specific risk based criteria. Testing has not identified any instances of management override and that journal entries are consistent with expectations. One internal control deficiency was identified relating to self authorisation of journals as outlined on page 20, we are satisfied that the journal in question was appropriate and reasonable and that the Council took prompt action to address the deficiency. We did not identify any changes in accounting policies or estimation processes and review of key estimates has not identified any matters to bring to your attention. Our audit work has not identified any evidence of management over-ride of controls.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
ISA240 revenue and expenditure recognition risk 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. In the public sector, whilst it is not a presumed significant risk, in line with the requirements of Practice Note (PN) 10: Audit of financial statements of public sector bodies in the United Kingdom, we also consider the risk of whether expenditure may be misstated due to the improper recognition of expenditure. This risk is rebuttable if the auditor concludes that there is no risk of material misstatement due to fraud relating to expenditure recognition.	Revenue As detailed in our Audit Plan, we do not consider this to be a significant risk for the Council. Having considered the risk factors set out in ISA 240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted because: • there is little incentive to manipulate revenue recognition and opportunities to manipulate revenue recognition are very limited; and • 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. Expenditure Our Audit Plan highlighted that we consider that we are able to rebut the significant risk in relation to expenditure as we concluded that there is no risk of material misstatement due to fraud relating to expenditure recognition. Our work has not identified any matters that would lead to a change in our risk assessment.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of land and buildings Revaluation of property, plant and equipment should be performed with sufficient regularity to ensure that carrying amounts are not materially different from those that would be determined at the end of the reporting period. Investment property carried at fair value should be revalued at each year end. Additionally, valuations are significant estimates made by management in the accounts. Our 2019/20 opinion included an emphasis of matter paragraph drawing attention to disclosures included in the financial statements of a material uncertainty attached to property valuations as at 31 March 2020 due to the ongoing nature of the COVID-19 pandemic. This paragraph did not represent a modification of our audit opinion. We have identified the valuation of land and buildings and investment property as a significant risk.	We have: • reviewed management's processes and assumptions for the calculation of the estimate, • reviewed the instructions issued to valuation experts and the scope of their work; • evaluated the competence, capabilities and objectivity of the valuation expert; • written to the valuer to confirm the basis on which the valuation was carried out in order to ensure that the requirements of the Code are met; • 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 Our review of the work of the valuer identified a series of challenge questions which led to additional work being performed. As a result the Council made an amendment of £3.630m to the valuation of its Other Land and Buildings, further information is provided on page 12-13. The main reason for the amendment was that the Council had valued a number of assets which it leases to third parties and receives a peppercorn rent of £1, at a valuation of £1, which after following challenge were revalued by the Council. Our testing identified potential further mis-statements totalling £0.971m, which when extrapolated across the Council's revalued asset base, could potentially result in a mis-statement of £3.470m, this was in respect of relatively insignificant differences of judgement between ourselves and the valuer based on our sample testing. We have made a number of recommendations (page 31) aimed at improving the audit trail to support the Council's valuation of its Property, Plant and Equipment assets. We are satisfied that the value of Property, Plant and Equipment is not materially misstated within the financial statements.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	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 (£325.2m in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions. The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation. The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable. The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount and inflation rates, where our consulting actuary has indicated that a 0.1% change in these two assumptions would have approximately 2% effect on the liability. During 2020/21 the Council made an early payment of contributions to the Pension Fund of £38.3m, covering the three financial years 2020/21 - 2022/23. As the accounting requirements for pensions in local government are already complex, this could further increase the risk of misstatement. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Council's pension fund net liability as a significant risk.	We have: • updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluated the instructions issued by management to their management experts (actuaries) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the pension fund valuations; • assessed the accuracy and completeness of the information provided by the Council to the actuaries; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial reports; and • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report. Our work concluded that all assumptions are considered to be in line with expectations and we have not identified any issues with the estimation process. Following a request during the course of the audit. the Council obtained a revised actuarial report to ensure that the pension liability disclosed in the financial statements agreed with actuary's estimated liability having considered the impact of the Council's decision to make an early payment of contributions covering the financial years 2020/21 – 2022/23. We are satisfied that the pension liability agrees to the revised actuarial report. Page 14 provides a detailed assessment of the estimation process for the valuation of the pension fund net liability. We have found no issues with the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary. Our assessment of the work of the actuary confirmed that they were competent and independent.

2. Financial Statements - Other risks

Risks identified in our Audit Plan	Commentary
Valuations of Infrastructure Assets The CIPFA Code of Practice on Local Authority Accounting states that Infrastructure assets shall be measured at depreciated historical cost. Historical cost is deemed to be the carrying amount of an asset as at 1 April 2007 (i.e. brought forward from 31 March 2007) or at the date of acquisition, whichever date is the later, and adjusted for subsequent depreciation or impairment. We identified a risk that the carrying value of infrastructure assets is not appropriate given the nature of how the assets are held on the balance sheet and monitored through the asset register.	The inherent risks which we identified in relation to infrastructure assets were: • an elevated risk of the overstatement of Gross Book Value and accumulated depreciation figures, due to lack of derecognition of replaced components • a normal risk of understatement of accumulated depreciation and impairment as a result of failure to identify and account for impairment of infrastructure assets and an over or understatement of cumulative depreciation as a result of the use of inappropriate useful economic lives (UELs) in calculating depreciation charges. We have been working with CIPFA and the English Government to find both long-term and short-term solutions which recognise the information deficits and permit full compliance with the CIPFA Code. It has been recognised that longer-term solutions, by way of a Code update, will take several years to put into place and so short-term solutions are being put in place in the interim. These short-term solutions include the issue of a Statutory Instrument (SI) by government. The English SI was laid before Parliament on 30 November 2022 and came into force on 25 December 2022. CIPFA issued an update to the Code for infrastructure assets in November 2022 and has issued further guidance in January 2023 in relation to useful economic lives (UELs). We have completed the following work focusing on the Council's current year's infrastructure assets: - reviewed and challenged the arrangements that the Council has in place around impairment of infrastructure assets - evaluated management's processes and assumptions for the calculation of the estimate including review of in-year depreciation and associated UELs - evaluated the competence, capabilities and objectivity of any management expert relied upon - challenged the information and assumptions used to inform the estimate - considered whether there has been any replacement of assets that have not been fully depreciated and evaluated the subsequent derecognition of the replaced assets. Based on our work, we are satisfied that the Council has: • correctly applied the SI and the requirements in the CIPFA Code update • appropriately removed the gross book value and accumulated depreciation from its disclosures adding a new disclosure setting out opening net book value and any in-year movements • not identified any prior period adjustments requiring disclosure in the accounts. The Council has demonstrated that the introduction of more appropriate useful economic lives would not lead to a material mis-statement of depreciation or net book value of infrastructure assets in respect of 2020/21 (impact £2.118m). This is outlined on page 38 as part of the impact of unadjusted misstatements. We have made one recommendation on page 33 in respect of the need for more granular level of infrastructure information in the Council's fixed asset register, which will assist the Council in the future when there is an expectation of the need to have more information on the various components which make up infrastructure assets.

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments
Land and Building valuations – £230.6m	The Council request their internal valuer to revalue other land and building 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). In 2020/21 the Council revalued £132.2m of other land and buildings. Management have also considered the year end value of non-valued properties and the potential valuation change in the assets revalued at 31/3/21. The total year end valuation of land and buildings was £230.6m, a net increase of £8.4m from 2019/20 (£222.2m).	The Council's accounting policy on valuation of land and buildings is included in Note 13 to the financial statements. The values provided by the valuer have been used to inform the measurement of property assets at valuation in the financial statements. In understanding how management has calculated the valuations we have: • assessed the qualifications, skills and experience of the valuer and determined the service to be appropriate; • ensured the underlying information and sensitivities used to determine the estimate were considered to be complete and accurate; • confirmed the valuer has 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 • reviewed the level of disclosure in the financial statements to confirm it is appropriate. Our audit of the Council's valuations highlighted a number of issues, the key ones being: • the valuer's report did not state the overall value of assets revalued in the year; • the disclosure table (Note 13) highlighting total value of assets revalued each year was materially incorrect; • historic building cost (BCIS) rates uplifted for inflation had been used, rather than the latest available BCIS rates at the date of valuation; • unusual rounding adjustments had been applied; • buildings should be more regularly inspected to ensure obsolescence adjustments are as accurate as possible; • the assumptions made regarding leased assets where the Council receives a peppercorn rent were challenged, resulting in a number of assets being revalued; and • specific valuer judgements were not always fully documented in the valuation calculations.

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £230.6m	The Council request their internal valuer to revalue other land and building 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). In 2020/21 the Council revalued £132.2m of other land and buildings. Management have also considered the year end value of non-valued properties and the potential valuation change in the assets revalued at 31/3/21. The total year end valuation of land and buildings was £230.6m, a net increase of £8.4m from 2019/20 (£222.2m).	As a result of our audit work and challenge of the valuers work an adjustment to the Council's valuation of its Property, Plant and Equipment of £3.630m. There is also a potential mis-statements totalling £0.971m, which when extrapolated across the Council's revalued asset base, could potentially result in a mis-statement of £3.470m, this was in respect of relatively insignificant differences of judgement between ourselves and the valuer based on our sample testing. We have made a number of recommendations relating to the valuation of Property, Plant and Equipment as outlined on page 31. We are satisfied that the value of Property, Plant and Equipment is not materially misstated within the financial statements.	Grey

Assessment

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

2. Financial Statements - key judgements and estimates

<table>
<tr><th>Significant judgement or estimate</th><th>Summary of management's approach</th><th>Audit Comments</th><th>Assessment</th></tr>
<tr>
<td>Net pension liability – £325.2m</td>
<td>The Council's net pension liability at 31 March 2021 is £325.2m (PY £253.1m) comprising the Local Government Pension Fund and unfunded defined benefit pension scheme obligations. 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. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £72.1m net actuarial loss during 2020/21.

The Council's Actuary, Mercer Ltd, have calculated some approximate effects of the costs of extending the transitional protections to younger members. The costings of the potential effect of McCloud at 31st March 2021, based on individual member data as at 2019 actuarial valuation and the results of those calculations based on the IAS19 assumptions have been included in the net pension liabilities on the Council's Balance Sheet.</td>
<td>In understanding how management has calculated the estimate of the net pension liability we have:

assessed management's expert;
assessed actuary's approach taken, detail work undertaken to confirm reasonableness of approach;
used PwC as auditors expert to assess actuary and assumptions made by actuary as outlined in the table below

<table>
<tr><th>Assumption</th><th>Actuary Value</th><th>PwC range</th><th>Assessment</th></tr>
<tr><td>Discount rate</td><td>2.10%</td><td>2.10% – 2.20%</td><td>●</td></tr>
<tr><td>Pension increase rate</td><td>2.80%</td><td>2.80%</td><td>●</td></tr>
<tr><td>Salary growth</td><td>4.20%</td><td>3.95% - 4.20%</td><td>●</td></tr>
<tr><td>Life expectancy – Males currently aged 45 / 65</td><td>Male Pensioner 22.4 years
Male non pensioner 23.9 years</td><td>Male Pensioner 20.9 - 23.2 years
Male non pensioner 22.5 - 24.7 years</td><td>●</td></tr>
<tr><td>Life expectancy – Females currently aged 45 / 65</td><td>Female Pensioner 25.1 years
Female non pensioner 26.9 years</td><td>Female Pensioner 24.0 - 25.8 years
Female non pensioner 25.9 - 27.7 years</td><td>●</td></tr>
</table>

assessed the completeness and accuracy of the underlying information used to determine the estimate;
reviewed the impact of any changes to valuation method;
assessed the reasonableness of the Council's share of LPS pension assets;
assessed the reasonableness of the movement in the estimate;
reviewed the adequacy of disclosure of estimate in the financial statements.

Our audit work has not identified any issues in respect of this significant estimate.</td>
<td>Light Purple

We consider management's process is appropriate and key assumptions are neither optimistic or cautious</td>
</tr>
</table>

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Covid-19 Grants Income Recognition and Presentation – Due to the Covid-19 pandemic there has been a significant increase in the level of Covid related grant funding with associated complexity and management judgement required. This has comprised a mix of discretionary and non-discretionary schemes.	Management take into account three main considerations in accounting for grants: • whether the Council is acting as the principal or agent and particularly whether it controls the goods or services before they transfer to the service recipient. Management's assessment needs to consider all relevant factors such as who bears credit risk and responsibility for any overpayments, who determines the amount, who sets the criteria for entitlement, who designs the scheme and whether there are discretionary elements. • whether there are conditions outstanding (as distinct from restrictions) that would require the grant to be recognised as receipt in advance, otherwise grant should be recognised as income. • whether the grant is a specific or non-specific grant. General un-ringfenced grants are disclosed on the face of the CIES, whereas ringfenced grants are required to be credited to service revenue accounts. There may be significant judgements over the accounting treatment. Different conclusions may be reached by authorities depending on how they have applied any discretion in administering the schemes - are these judgements reasonable and sufficiently disclosed to meet the requirements of IAS 1:125.	We have tested a sample of grants received to confirm the following: • whether the Council is acting as the principal or agent which would determine whether the authority recognises the grant at all; • assessed the completeness and accuracy of the underlying information used to determine whether there are conditions outstanding (as distinct from restrictions) that would determine whether the grant is recognised as a receipt in advance or income; • assessed the impact for grants received, whether the grant is specific or non specific grant (or whether it is a capital grant) – which impacts on where the grant is presented in the CIES; • reviewed the adequacy of disclosure of judgement in the financial statements. Within Note 7 grants have been incorrectly classified as Covid-related grants rather that other government grants. Also, the note included fees and charges, which were wrongly included as contributions. This also impacts on Note 2, which analyses income between fees and charges and grants and contributions. The Council has amended the notes for this, neither of these incorrect classifications impact on the Council's reported revenue outturn position. Page 39 provides further details. Our audit testing has not identified any further issues.	Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious.

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Depreciation and useful economic lives of assets	Items of property, plant and equipment are depreciated over their remaining useful lives in a manner consistent with the consumption of economic or service delivery benefits. Freehold land is considered to have an infinite life and is not depreciated. Management's accounting policy is that property depreciation should be applied with a straight-line allocation over the life of the property as estimated by the valuer.	We have: • reviewed the accounting policy; • recalculated the depreciation charge based on the useful economic lives as provided by the valuer as well as an overall recalculation of depreciation; • assessed the reasonableness of the useful economic life for a sample of assets; and • assessed the appropriateness of the policy in line with the financial reporting framework. Our audit work has not identified any issues in respect of this significant estimate.	Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Assessment

●	Dark Purple	We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
●	Blue	We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
●	Grey	We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
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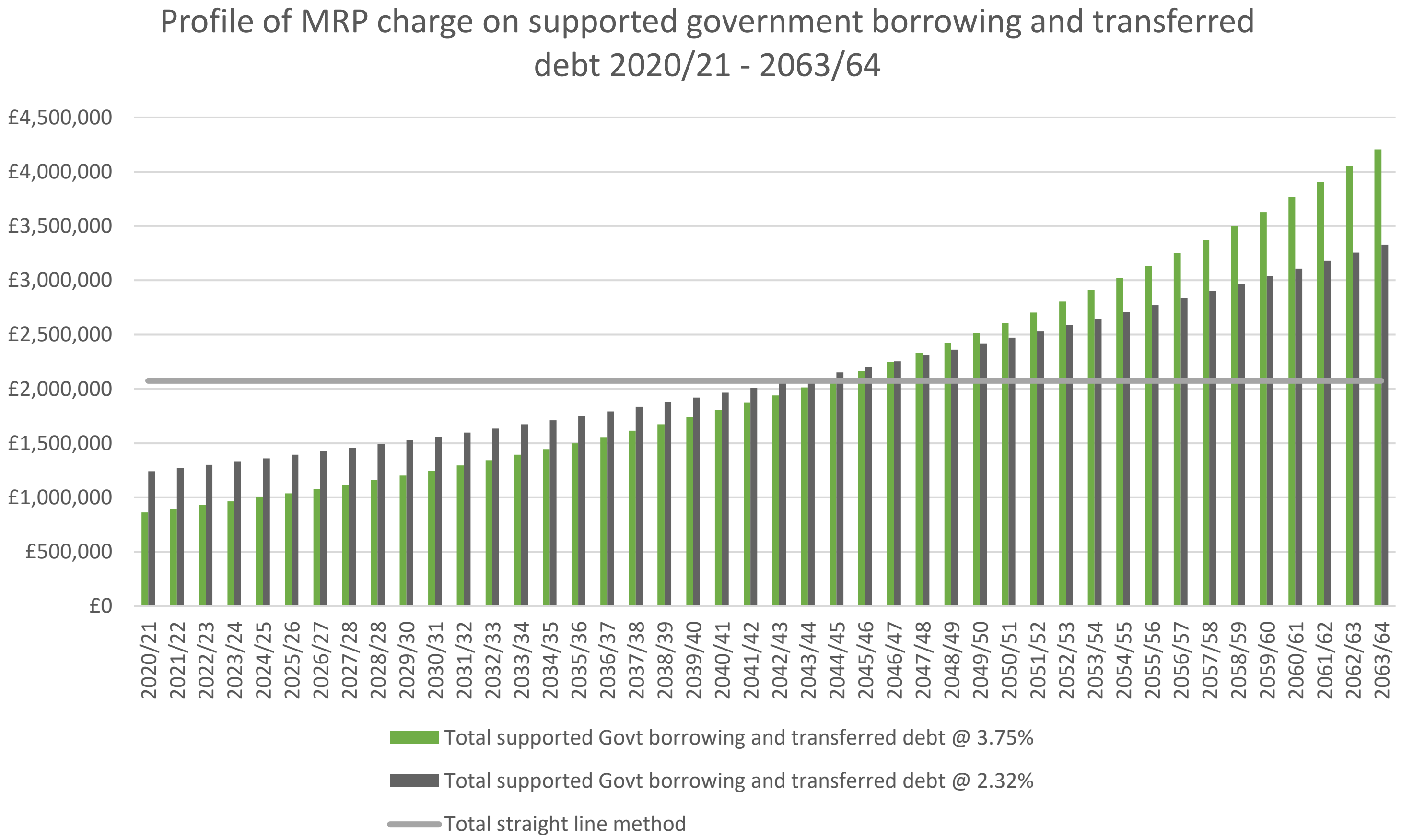
2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision (MRP) Local authorities are required to charge 'Minimum Revenue Provision' to their revenue account in each financial year as a consequence of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003. The regulations give local authorities flexibility in how they calculate MRP, providing the calculation is 'prudent'. In calculating a prudent provision, local authorities are required to have regard to statutory guidance issued by the government from time to time, the current guidance was issued in 2018 and was applicable from 1 April 2019. All capital expenditure has to be financed either from capital receipts, capital grants or other capital contributions or eventually from revenue income. The broad aim of MRP is to require local authorities to put aside revenue over time to cover their 'Capital Financing Requirement' (CFR). In doing so, local authorities should align the period over which they charge MRP to one that is commensurate with the period over which their capital expenditure provides benefits. Government guidance includes four options for making prudent provision, but this does not rule out a local authority from using an alternative method, should it decide that is more appropriate. A local authority can change the method(s) that it uses to calculate MRP at any time and where it changes the method(s) that it uses it should explain why the change will better allow it to make prudent provision.	In 2020/21 the Council approved changes in its MRP policy for the 2020/21 and subsequent financial years. The changes relate to capital expenditure financed from debt arising up to 2007/08, all new Government-supported borrowing arising from 2007/08 and historic debt entered into prior to unitary authority status. The Council has adopted an annuity method of calculating MRP, rather than a straight-line basis that had previously been applied for these areas of capital expenditure. Since 2017 a total of £10.6m of capital receipts have been applied to reduce debt and the Council's CFR.	In line with the statutory guidance the Council reported the change in its MRP policy to members at the Finance Council on 1 March 2021, recommending that the proposed changes were to be implemented for 2020/21 and subsequent years. The report to Finance Council explained that MRP would be charged over 50 years from 2015/16 using an annuity variant based on the PWLB rare prevailing in 2014/15 and that the annuity method takes into account of the time value of money. However, it is not clear that the financial impact of this change to an annuity based calculation was quantified and explained to members at the time. As a result of our discussions, the Council has, within its 2022/23 MRP policy, enhanced its reporting to members providing an analysis on the profile of the MRP Charges on Supported Borrowings The graph on page 19 shows that the MRP charge related to capital expenditure financed from Government-supported borrowing (£78m) and transferred debt (£15.3m) will steadily increase in the future under the annuity approach, giving rise to increased pressures on the Council's revenue budget in later years. The Council's MRP charge on supported borrowing and transferred debt based on a straight line basis would have been £2.07m per annum. The impact of the change to an annuity method is a reduced MRP charge for 2020/21 of £0.863m, progressively rising to £4.21m by 2063/64. Capital receipts are sums received by the Council in respect of a disposal of an interest in a capital asset. The uses to which capital receipts can be put are defined in regulation and these include financing capital expenditure and repaying the principal of an amount borrowed. As capital receipts are not a revenue resource, they cannot be applied 'in lieu of MRP'. The Council's application of capital receipts has served to reduce the impact of unfinanced capital expenditure on the Council's CFR. Over the period from 31/3/17 to 31/3/21 the Council's CFR has increased from £297.5m to £300.7m.	Both the Council's previous and revised MRP policies spread MRP charges over the period to 2063/64; under the new approach the profile of these charges has changed, with higher charges in later years in cash terms. We recommend the Council reviews its MRP policy to assure itself it results in an MRP charge that it considers to be prudent.

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Audit Comments continued	Assessment
	As noted above, the revised MRP policy affects the amount of MRP charged in connection with capital expenditure incurred several years ago. Prior to the introduction of the CIPFA Prudential Framework, MRP was calculated with reference to formulae provided by government, now described as ‘Option 1’ and ‘Option 2’ in the current statutory guidance. Under the historic approach to calculating MRP, capital financing records did not need to capture the period over which capital expenditure was expected to provide benefits. The Council has therefore been unable to provide us with a breakdown of the capital expenditure relating to the Government-supported borrowing of £78m, which we understand predates 2008/09. As a result, we have been unable to confirm whether charging MRP on this unfinanced capital expenditure over a 44 year period is commensurate with the period over which the underlying capital expenditure will provide benefits to the Council (and we note the total period over which MRP will have been charged will be in the region of 60 years).	We have been unable to conclude on the reasonableness of the period of time over which MRP is being charged on historic unfinanced capital expenditure. We recommend the Council revisits this area to satisfy itself that a prudent MRP charge is being made.
	A further key component of the annuity charge basis of calculating MRP is the choice of and application of an annuity rate. The Council applied the 2015 PWLB Annuity New Loan Rate (3.75%) for a new 44 year loan within its revised 2020/21 MRP calculations. It is unclear to us why the Council chose to use the 2015 rate in 2021. Had the Council applied the prevailing PWLB 2021 rate (2.32%) at the time the policy change was made the effect would have been a £0.4m higher MRP charge in 2020/21, with MRP rising at a slower rate in later years than if the 2015 PWLB rate had been applied. The overall effect of the change to an annuity basis is that the Council’s total MRP charge for 2020/21 was £ 5.688m, a reduction of £0.8m compared to the previous year when the straight line basis was adopted. A recent Grant Thornton benchmarking exercise comparing MRP charged in 2020/21 as a percentage of the Capital Financing Requirement (CFR) at the end of 31 March 2021. This exercise included data from 62 authorities across the country. The Council’s 2020/21 MRP charge of £5.688m was 1.91% of its closing CFR, below the median of 2.15% and simple average of 2.68% noted across our sample. Given the issues highlighted with regards to MRP, it is important that the Council is assured that its MRP charge is prudent and that it has been prepared in line with statutory guidance. We have included a recommendation on page 32 of this report.	It is unclear why the Council has applied a 2015 annuity rate in connection with an MRP policy change made in 2020/21 and we recommend the Council revisits this assumption within its MRP calculations for future years.

2. Financial Statements - key judgements and estimates



Note: the above chart reflects actual forecast MRP charges, unadjusted for the time value of money. The chart does not include debt service charges (interest).

2. Financial Statements - Internal Control

Assessment	Issue and risk	Recommendations
●	Our work on journals identified an issue where a member of the accountancy staff was able to authorise their own journals. As soon as this was identified by the Council prompt action was taken to reverse the journal and for it to be re-approved. Restricted access rights were immediately put in place and checks performed to ensure there were no other cases. Our testing confirmed that for the journal in question it was appropriate and not unusual.	It would be good practice to have posting and authorisation of journals by separate members of staff. **Management response** It is our usual practice to have journals approved by a member of staff who is not the inputter. On this occasion the authorisation was accidental and highlighted an anomaly with the individual's user profile, which was immediately rectified. The access and approval rights within the general ledger are currently being reviewed to ensure consistency for each category of user profile.

Assessment

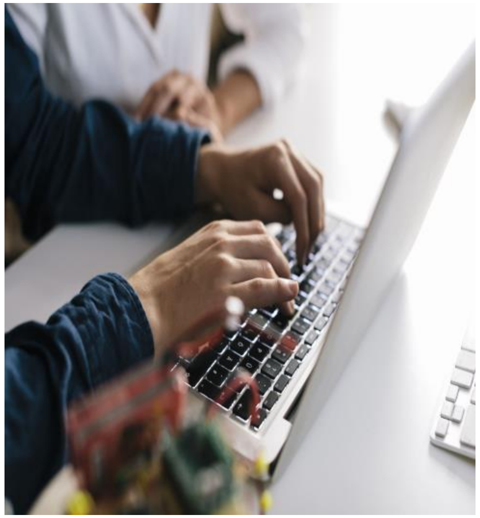
- ○ Significant deficiency – risk of significant misstatement
- ● Deficiency – risk of inconsequential misstatement

2. Financial Statements - other communication requirements

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	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.

2. Financial Statements - other communication requirements



Issue	Commentary
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the bank and investment bodies as well as long term debtors. This permission has now been granted and requests sent. There were delays in obtaining the necessary confirmations from some schools but these have now been obtained. All other relevant confirmations have been received.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided.

2. Financial Statements - other communication requirements

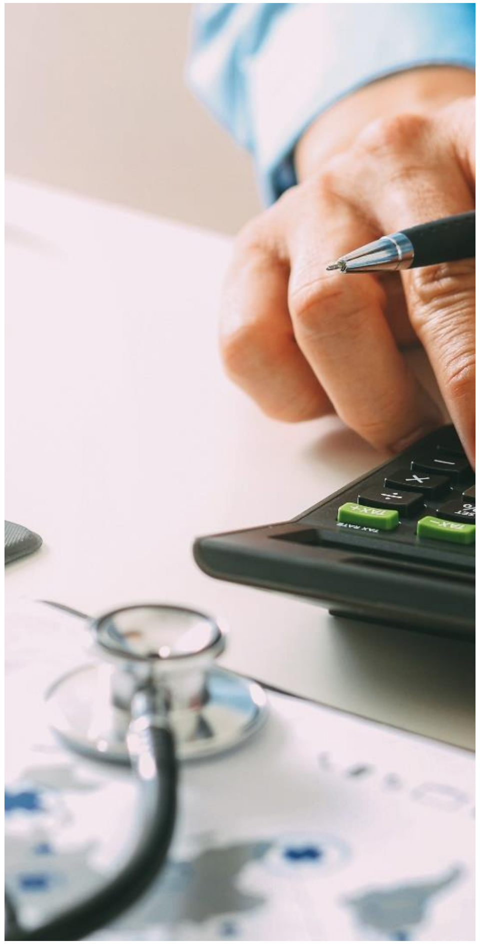
Our responsibility

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).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Council and the environment in which it operates • the Council's financial reporting framework • the Council's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - 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 the 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 – refer to appendix E.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit; • if we have applied any of our statutory powers or duties; and • where we are not satisfied in respect of arrangements to secure value for money and have reported significant weakness/es. We have nothing to report on these matters.



2. Financial Statements - other responsibilities under the Code

Issue	Commentary
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 group audit instructions. Note that detailed work is not required as the Council does not exceed the £2bn threshold.
Certification of the closure of the audit	We intend to certify the closure of the 2020/21 audit in our audit opinion.

3. Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria.
- Auditors undertaking sufficient analysis on the Council's VFM arrangements to arrive at far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

3. VFM - our procedures and conclusions

We have completed our VFM work, and our detailed commentary is set out in a separate Auditor's Annual Report. We are satisfied that the Council have made proper arrangements for securing economy, efficiency and effectiveness in their use of resources. Overall, we have not identified any significant weaknesses or related key recommendations. We have identified a small number of improvement recommendations, which management has accepted and will implement. A summary of the three key themes is shown below:

Financial sustainability

The Council is operating in an increasingly uncertain financial environment. For the second successive year, the Comprehensive Spending Review was a single year spending review. Blackburn with Darwen, as with all local authorities, will need to continue to plan with little certainty over funding in the medium term.

Despite this uncertainty, and the challenges posed by COVID-19, the Council has maintained a good financial position. An underspend position of £10.628m was achieved in 2020/21 primarily as a result of the Council receiving Covid funding.

Our work has not identified any significant weaknesses in arrangements to secure financial stability at the Council. We have identified a small number of improvement recommendations relating to the review of the Medium Term Financial Strategy (MTFS), level of reserves, reporting of mandated and discretionary expenditure and the Council's Minimum Revenue Provision (MRP) policy.

Governance

Our work this year has focussed on developing a detailed understanding of the governance arrangements in place at the Council and the changes instigated as a response to the pandemic.

Our work on both business as usual governance and adapted structures has not identified any significant weaknesses in arrangements. However, we have identified one improvement recommendation relating to the need to update Council policies that are several years old.

Improving economy, efficiency and effectiveness

The Council has demonstrated a clear understanding of its role in securing economy, efficiency and effectiveness in is use of resources. Our work has not identified any significant weaknesses in arrangements or key recommendations in relation to delivering economy efficiency and effectiveness.

4. 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.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

5. 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.

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing Benefit Claim (2020/21)	11,700	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 £11,700 in comparison to the total fee for the audit of £163,311 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.
		Self review (because GT provides audit services)	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 Housing Benefit Claim (2021/22)	15,400	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 £15,400 in comparison to the total fee for the audit of £136,186 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.
		Self review (because GT provides audit services)	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 (2020/21)	5,985	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 £5,985 in comparison to the total fee for the audit of £163,311 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.
		Self review (because GT provides audit services)	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 (2021/22)	7,500	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 £5,985 in comparison to the total fee for the audit of £136,186 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.
		Self review (because GT provides audit services)	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.

Appendices

A. Action plan – Audit of Financial Statements

We have identified seven recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendation with management and we will report on progress on these recommendations during the course of the 2021/22 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
High	Our audit of the Council's Property, Plant and Equipment assets highlighted a number of issues related to its in year revalued assets. The key issues being: • The valuer's report should state the overall value of assets revalued in the year. • Latest BCIS rates at the date of valuation should be used rather then using historical rates and uplifting for inflation. • Unusual rounding adjustments should not be made on future valuations. • Assumptions have been made regarding leased assets at a peppercorn rate which were incorrect, the future use of these assets should be confirmed at year end to arrive at correct valuation approach. • Where asset specific valuer judgements are made, these should be better documented in the valuation calculations with a clear audit trail supporting the valuation.	Ensure that there is a clear audit trail to support judgements used as part of the process to revalue assets. **Management response** All the identified issues have been raised as part of management's ongoing dialogue with the Council's internal property valuation team. Terms of engagement have been documented and agreed with the valuers.
Medium	Our work on journals identified an issue where a member of the accountancy staff was able to authorise their own journals. As soon as this was identified by the Council prompt action was taken to reverse the journal and for it to be re-approved. Restricted access rights were immediately put in place and checks performed to ensure there were no other cases. Our testing confirmed that for the journal in question it was appropriate and not unusual.	It is good practice to have posting and authorisation of journals by separate members of staff. **Management response** It is our usual practice to have journals approved by a member of staff who is not the inputter. On this occasion the authorisation was accidental and highlighted an anomaly with the individual's user profile, which was immediately rectified. The access and approval rights within the general ledger are currently being reviewed to ensure consistency for each category of user profile.

Controls

- ● High – Significant effect on financial statements
- ● Medium – Limited Effect on financial statements
- ● Low – Best practice

A. Action plan – Audit of Financial Statements (continued)

We have identified seven recommendation for the Council as a result of issues identified during the course of our audit. We have agreed our recommendation with management and we will report on progress on these recommendations during the course of the 2021/22 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	Our review of the MRP charge for 2020/21 highlighted that the Council had changed the basis of its calculation for 2020/21 and for forthcoming years. Under the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 councils are required to make a prudent provision each year for financing their capital investment.	The Council should satisfy itself that its MRP policy results in a prudent MRP charge, in particular that the calculation of MRP appropriately reflects the nature of and period of expected benefits of capital expenditure and appropriate annuity rates are applied. **Management response** The Council have undertaken a review of its MRP Policy with the outcome of this review reported to Councillors for consideration and approval.
Medium	As part of our work reviewing the Council's cash and cash equivalent balance we seek confirmation from Lloyds Banks of the balances. Difficulties were encountered in obtained confirmations for a number of schools as the bank did not recognise the signatures contained on the school mandates granting us access to this information. Our review of bank reconciliations for a sample of the Council's schools identified some historic balances which had been brought forward which the Council has agreed to write off. Historic balances should not be routinely carried forward but investigated and considered for possible write off.	There is a need to ensure schools update Lloyds Bank when signatories change at the schools. The Council should review the school bank reconciliations and where historic balances are identified these should be considered for write off. **Management response** Agreed, action taken and ongoing on both points.

Controls

- ● High – Significant effect on financial statements
- ● Medium – Limited Effect on financial statements
- ● Low – Best practice

A. Action plan – Audit of Financial Statements (continued)

We have identified seven recommendation for the Council as a result of issues identified during the course of our audit. We have agreed our recommendation with management and we will report on progress on these recommendations during the course of the 2021/22 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	There is a lack of detailed information contained within the Council's fixed asset register in respect of infrastructure assets.	Introduce a more granular level of infrastructure information in the fixed asset register, which will assist the Council in the future when there is an expectation of the need to have more information on the various components which make up infrastructure assets. **Management response** Asset groupings and their associated lives have been reviewed in conjunction with the Council's Highways team and updated in the fixed asset register. Work is ongoing to assess the additional information likely to be required in order to meet any future accounting requirements in relation to infrastructure assets.
Low	The Council's accounting policy is to revalue its property plant and equipment assets over a 5 year cycle. We identified that Turton Tower (£416,000) has not been valued within this timeframe. The Council plan to have the asset valued in 2021/22.	Ensure that the Council's accounting policy is fully adopted with all assets revalued within the agreed 5 year timescale. **Management response** Turton Tower was revalued in 2021/22.
Low	The Council has chosen to make a prior period adjustment of £0.073m between Heritage Assets and Property, Plant and Equipment. The Council has chosen to correct an immaterial prior period error by restating the previously reported results rather than by correcting it in the current period, as this is not required and is unnecessary under IAS 8.	Prior period adjustment should only be undertaken to correct material prior period errors in line with IAS 8. **Management response** Management agree that they would not normally make a prior period adjustment for such an immaterial amount. However, in order to comply with the revised accounting policy for Heritage Assets and record those assets at their current insurance value, it was necessary to reclassify one Heritage Asset that was not covered by the insurance valuation.

Controls

- ● High – Significant effect on financial statements

B. Follow up of prior year recommendations

We identified the following issues in the audit of Blackburn with Darwen Borough Council's 2019/20 financial statements, which resulted in two recommendations being reported in our 2019/20 Audit Findings report. We have followed up on the implementation of our recommendations.

Issue and risk previously communicated	Update on actions taken to address the issue
Heritage Assets Testing last year 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 recommended that there was 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's finance team has worked more closely with the Arts and Heritage Manager to ensure they receive all up to date revaluations of Heritage Assets. Some difficulties remain regarding obtaining supporting evidence for valuations done several years ago. As a result of this and challenge from us during the audit the Council has for 2020/21 changed its accounting policy for Heritage assets and has based its valuation on its insurance value. This has resulted in an audit adjustment as highlighted on page 36.
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. We recommended that the Council should undertake an exercise to ensure that the fixed asset register is accurate and up to date.	During last year's audit it was recognised that the date of last valuation held within the asset register was updated each time an asset is "enhanced" as a result of capital expenditure, rather than capturing the date of the last formal valuation. As a result, Note 13 cannot be compiled using the fixed asset register data alone, therefore, supplementary records are now being maintained to assist with this disclosure.

C. 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 2021.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Accounting the Shopping Centre Mall Finance Lease The Council grants a lease to use the Shopping Centre Mall. Audit work identified that the lease had been incorrectly accounted for. The Council had recognised the value of the debtor and deferred capital receipt equal to the present value of the forecasted rental amounts to be received under the lease agreement. Upon detailed review the rental payments should be classified as contingent rentals as they are dependent on factors other than the passage of time, and as such should not be included in the calculation of the finance lease debtor as they do not make up minimum lease payments. The contingent rentals should be recognised in the Comprehensive Income and Expenditure Statement in the year they are received. In accordance with IAS 17 the minimum lease payments for the lease are nil, and as such the net investment and therefore the finance lease debtor are also nil. The Council has made prior period adjustments to amend the value of the finance lease debtor and corresponding deferred capital receipt to reflect this.	Finance & Governance net expenditure -1,447 Finance and investment income +1,445 (Same adjustment made as a prior period adjustment as at 31/3/20 and 1/4/19)	Long term debtor - 26,271 Unusable Reserves - 26,271 (26,273 treated as prior period adjustment as at 31/3/20) (26,275 treated as prior period adjustment as at 1/4/19)	nil

C. 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 2021.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Borrowing £8.226m of LOBO borrowings had been incorrectly classified as short term rather than long term as their maturity date is in excess of 12 months. There is an impact of this on the balance sheet and a disclosure impact on Note 26 Financial Instruments. There is also a prior period adjustment and third balance sheet required.	nil	Short term Borrowings – 8,226 Long term Borrowings +8,226 (8,233 treated as prior period adjustment as at 31/3/20) (13,240 treated as prior period adjustment as at 1/4/19)	nil
Heritage Assets The Council's valuation of its Heritage assets has been amended to reflect the insurance value of those assets. The existing balance sheet value was based on valuations done several years ago and the insurance valuation provides a more recent figure. There is also a prior period adjustment and third balance sheet required.	nil	Heritage Assets + 16,391 Unusable Reserves +16,391 (16,245 treated as prior period adjustment as at 1/4/20) (13,301 treated as prior period adjustment as at 1/4/19)	nil
PPE – Impact of revaluation error The Council had valued a number of assets which it leases to third parties and receives a peppercorn rent of £1, at a valuation of £1, which the Council agreed to revalue following audit challenge, leading to an increase in valuation of £3.630m	**nil**	Property Plant and Equipment+3,630 Cost of services +2,559 Usable Reserves +1,071	**nil**

C. Audit Adjustments

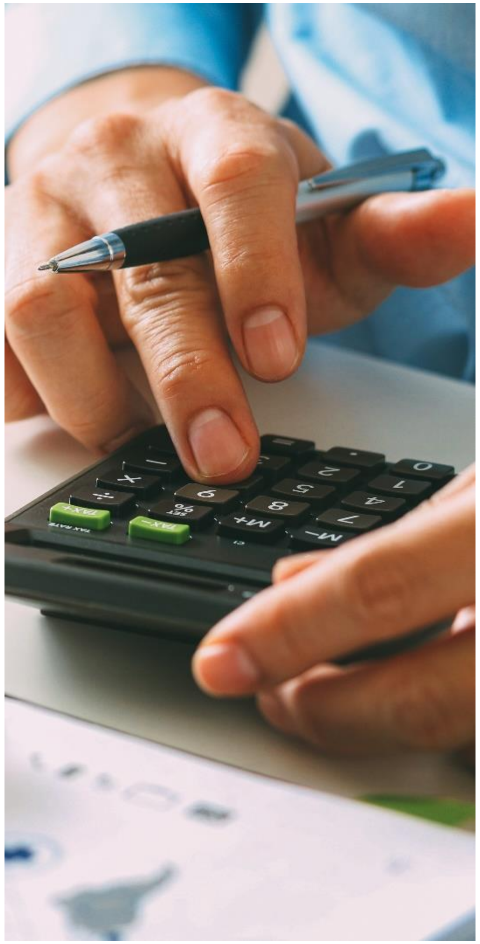
We are required to report all non-trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

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 2021.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Grant Received in advance Unspent balances on grants had been accounted for as grants received in advance rather than creditors	nil	Grant received in advance – 7,067 Creditors + 7,067	Nil

C. Audit Adjustments



Impact of unadjusted misstatements

The table below provides details of potential errors identified during the 2020/21 audit which have not resulted in adjustment within the final set of financial statements.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Extrapolated error from additions/REFCUS testing which identified one item relating to 2019/20 – actual error not over triviality at £1k.	Nil	PPE - (403)	Nil	Extrapolated error not material
Extrapolated judgement error from Land and Building revaluation testing – potential mis-statements totalling £0.971m identified from testing, which when extrapolated across the Council's revalued asset base, could potentially result in a mis-statement of £3.470m	Nil	PPE Land and Buildings +3,470	Nil	Extrapolated error not material
Additional depreciation charge for changes to estimated asset lives for infrastructure assets	Nil	Infrastructure Assets NBV – (2,118)	Nil	Not material
Overall impact	**nil**	**+949**	**Nil**	

Impact of prior year unadjusted misstatements

The one unadjusted misstatement raised in the 2019/20 Audit Findings Report in respect of Heritage Assets understated. This has been correctly amended this year.

C. 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.

Misclassification and disclosure changes

A number of general presentation amendments have been made to the financial statement to enhance discloses. The table below provides details of key misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Auditor recommendations	Adjusted?
Note 30 Post Employment Benefits The Note did not reflect the latest information on the payments made and contribution rate in respect of the Teachers Pensions Scheme.	The note has been updated to reflect the correct payments made to the Teachers Pension Scheme of £7,925,928 and contribution rate of 23.68%.	✓
Note 7 Grant Income and Contributions credited to Cost of Services £3.835 m of grants had been incorrectly classified within the note as Covid related Grants rather than Other Government Grants.	The note has been correctly updated to reflect the correct classification of grant income.	✓
Note 7 Grant Income and Contributions credited to Cost of Services Fees and charges of £3.580m had been incorrectly disclosed within Note 7 as other contributions and contributions from other local authorities and other public sector. This also impacts on Note 2, which analyses income between fees and charges and grants and contributions. There is also a prior period adjustment of £3.176m.	In Note 7 other contributions and contributions from other local authorities and other public sector and other contributions have been reduced by £2.521m, £0.916m and £0.143m respectively (£1.907m, £1.197m and £0.072m respectively in 2019/20). In Note 2, Fees, charges and other service income has been increased by £3.580m (£3.176m in 2019/20) and Government grants and contributions has been reduced by £3.580m (£3.176m in 2019/20).	✓

C. 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.

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	Auditor recommendations	Adjusted?
Note 26 Financial Instruments There was an arithmetical error in the fair value disclosure table and in the Council's investment portfolio disclosure table within Note 26. The total for the difference in PFI liabilities and the total for short term investments was incorrect, prior year figures have been included in the total.	The note has been correctly updated to reflect the correct fair value balance for PFI liabilities and the correct total for short term investments.	✓
Note 13 Property, Plant and Equipment The table highlighting the value of assets revalued each year by the valuer was materially incorrect, there was an omission of £25.165m from the total of assets revalued during the year and did not reconcile to the fixed asset register and supplementary information provided by the valuer.	The table has been updated to accurately reflect the value of assets valued each year.	✓
Note 30 Post Employment Benefits As a result of obtaining a revised actuary report in February 2022 reflecting the Council's lump sum early prepayment, the fair value of plan assets has increased by £26.509m, the value of the prepayment for 2021/22 and 2022/23. The table in the note disclosing pensions assets and liabilities recognised in the Balance Sheet requires updating. There is also a change in the Reconciliation of Fair Value of the Scheme (plan) Assets table in the note for the same amount to increase the contributions from employer figure.	The fair value of plan assets to be updated to reflect the fair value of £780.591m and contributions from employer updated to show the total value of the early lump sum payment of £38.45m.	✓

C. 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.

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	Auditor recommendations	Adjusted?
Note 31 Cash Flow Statement The table disclosing investing activities incorrectly included as part of purchase of short and long term investments cash and cash equivalents.	The note and the cash flow statement has been amended accordingly.	✓

D. Fees

Audit fees	Proposed fee	Final fee
Scale fee	£79,186	£79,186
Add recurring variations		
Raising the bar/regulatory factors/new standards and developments	£4,000	£3,125
Enhanced audit procedures for Property, Plant and Equipment	£3,000	£3,750
Enhanced audit procedures for Pensions	£3,000	£3,750
Recurring scale fee and variations	£89,186	£89,811
New issues for 2020/21		
Additional work on Value for Money (VfM) under new NAO Code	£26,000	£26,000
Increased audit requirements of revised ISAs	£17,000	£13,000
Total audit fees 2020/21 (excluding VAT)	£132,186	£128,811
Additional Fee:		
Dealing with members of the public correspondence relating to capital expenditure, adult social care, land transactions and the funding of Barbara Castle statue	nil	£5,000
Additional work required in auditing the Council's property, plant and equipment valuations comprising extensive challenge of the valuer due to poor supporting evidence and working papers, additional sample testing of £1 peppercorn rent assets, weekly meeting with the Director of Finance and other senior finance staff to discuss the findings	nil	£15,000

D. Fees

Audit fees	Proposed fee	Final fee
Additional audit work required associated with Heritage assets and accounting for LOBO's leading to material audit adjustments	nil	£4,000
Audit of infrastructure assets requiring additional work	nil	£6,250
Accounting the Shopping Centre Mall Finance Lease	nil	£6,500
Total audit fees	£132,186	£165,561

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services – Certification of Housing Benefit Subsidy Return (2020/21)	£11,700	£11,700
Audit Related Services – Certification of Teachers Pension Return (2020/21)	£5,985	£5,985
2020/21 Total non-audit fees (excluding VAT)	**£17,865**	**£17,865**
Audit Related Services – Certification of Housing Benefit Subsidy Return (2021/22)	£15,400	£15,400
Audit Related Services – Certification of Teachers Pension Return (2021/22)	£7,500	£7,500
2021/22 Total non-audit fees (excluding VAT)	**£22,900**	**£22,900**

E. Audit opinion DRAFT

Our audit opinion is included below.

We anticipate we will provide the Council with an unmodified audit report

Independent auditor's report to the members of Blackburn with Darwen Borough Council

Report on the Audit of the Financial Statements

Opinion on financial statements

We have audited the financial statements of Blackburn with Darwen Borough Council (the 'Authority') for the year ended 31 March 2021, which comprise the Comprehensive Income and Expenditure Statemen, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2021 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Chief Financial Officer's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority to cease to continue as a going concern.

E. Audit opinion DRAFT

In our evaluation of the Chief Financial Officer's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21 that the Authority's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority and the Authority's disclosures over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Chief Financial Officer with respect to going concern are described in the 'Responsibilities of the Authority, the Chief Financial Officer and Those Charged with Governance for the financial statements' section of this report.

Other information

The Chief Financial Officer is responsible for the other information. The other information comprises the information included in the Annual Governance Statement and the Statement of Accounts, other than the financial statements, and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

E. Audit opinion DRAFT

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Chief Financial Officer and Those Charged with Governance for the financial statements

As explained in the Statement of Responsibilities set out on page 22, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Financial Officer. The Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Financial Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit and Governance Committee is Those Charged with Governance. Those Charged with Governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above,

E. Audit opinion DRAFT

to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Authority and determined that the most significant, which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015 and the Local Government Act 2003, the Local Government Act 1972, the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992) and the Local Government Finance Act 2012.
- We enquired of senior officers and the Audit and Governance Committee, concerning the Authority's policies and procedures relating to:
  - the identification, evaluation and compliance with laws and regulations;
  - the detection and response to the risks of fraud; and
  - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers, internal audit and the Audit and Governance Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Authority's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to journals, management estimates and transactions outside the course of business.
- Our audit procedures involved:
  - evaluation of the design effectiveness of controls that the Chief Financial Officer has in place to prevent and detect fraud;
  - journal entry testing, with a focus on manual journals posted during the year with high risk characteristics;
  - challenging assumptions and judgements made by management in its significant accounting estimates in respect of land and buildings and defined benefit pensions liability valuations;
  - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and

E. Audit opinion DRAFT

- regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to land and buildings and defined benefit pensions liability valuations.
- Assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's.
  - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
  - knowledge of the local government sector
  - understanding of the legal and regulatory requirements specific to the Authority including:
    - the provisions of the applicable legislation
    - guidance issued by CIPFA/LASAAC and SOLACE
    - the applicable statutory provisions.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - the Authority’s operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.

the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

Report on other legal and regulatory requirements – the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources

Matter on which we are required to report by exception – the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We have nothing to report in respect of the above matter.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor’s responsibilities for the review of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing

E. Audit opinion DRAFT

economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2021. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

Report on other legal and regulatory requirements - Certificate

We certify that we have completed the audit of the financial statements of Blackburn with Darwen Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 [and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited]. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Signature:

John Farrar, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

Liverpool

Date

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