

# Informing the audit risk assessment for Blackburn with Darwen Borough Council 2021/22



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 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 your business or any 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.

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## Purpose

The purpose of this report is to contribute towards the effective two-way communication between Blackburn with Darwen Borough Council's external auditors and Blackburn with Darwen Borough Council's Audit and Governance Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit and Governance Committee under auditing standards.

## Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Audit and Governance Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit and Governance Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit and Governance Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit and Governance Committee and supports the Audit and Governance Committee in fulfilling its responsibilities in relation to the financial reporting process.

## Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Council's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties,
- Going Concern, and
- Accounting Estimates.

## Purpose

This report includes a series of questions on each of these areas and the response we have received from Blackburn with Darwen Borough Council's management. The Audit and Governance Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

# General Enquiries of Management

Question	Management response
<p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2021/22?</p>	<p>Coronavirus pandemic:</p> <ul style="list-style-type: none"> <li>• significant additional costs and loss of income to the Council caused by the pandemic has led to variations in expenditure and income across all the Council's portfolios</li> <li>• additional funding has been received from Government to offset these losses – we need to ensure that we have identified the many grant funding streams and have accounted for them appropriately</li> <li>• impact on Collection Fund accounting</li> <li>• impact on provision for bad debts</li> </ul> <p>Infrastructure Assets accounting changes</p> <p>Heritage assets accounting policy</p> <p>The Director of Finance reported on accounting policies to March Audit and Governance committee</p>
<p>2. Have you considered the appropriateness of the accounting policies adopted by Blackburn with Darwen Borough Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?</p>	<p>No changes to the accounting policies section of the Statement of Accounts document.</p> <p>The Council has undertaken a review of its MRP policy with Arlingclose, treasury management advisors. As a result of this review the Council has updated its policy to apply the annuity calculation method to all elements of the CFR. The estimated lives used have not changed.</p>
<p>3. Is there any use of financial instruments, including derivatives? If so, please explain</p>	<p>No changes since 2020/21 and nothing unusual. No derivatives are used. We have longstanding LOBO's but they do not involve complex arrangements and are not significant. Details are reported to the Audit &amp; Governance Committee on a regular basis.</p>
<p>4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?</p>	<p>Additional expenditure related to the Covid pandemic, also loss of fees and charges income but increase in grant funding will impact on gross expenditure and income in CIES</p>

## General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets? If so, what are they?	This has been discussed with the in-house property valuer and the annual impairment review requested. Nothing identified to date.
6. Are you aware of any guarantee contracts? If so, please provide further details	<p>The only contracts we are aware of are where the Council is in effect a guarantor in relation to the Local Government Pension Scheme, where we are the Scheme Employer for an Admitted Body Status Agreement.</p> <p>There are a few pension guarantees in place where staff have TUPE transferred to external companies. However, the numbers are low and the companies have no pensions deficit therefore these are not considered to be material.</p>
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements? If so, please provide further details	<p>We are aware of a small number of social care insurance claims which involve Human Rights Act breaches. These are being handled by the Council's insurers and are not expected to have an impact on the financial statements.</p> <p>The Council is currently in discussions with LCC regarding responsibility for a public liability claim which pre-dates the Council's unitary status. The Council is also managing a public liability claim relating to alleged asbestos exposure for which there is no insurance cover.</p>
8. Other than in house solicitors, can you provide details of those solicitors utilised by Blackburn with Darwen Borough Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	<p>External solicitors are usually instructed via the North West Legal Consortium. This is a legal consortium [with nearly 50 public sector members] who procure external solicitors at preferential rates to provide legal services via a framework agreement.</p> <p>At present there are no external solicitors working on open litigation or contingencies from prior years.</p> <p>NB Social care lawyers have not been included in this response</p> <p>Blake Morgan are instructed on the legal challenge we have received on Blackburn Bus Station</p> <p>Forbes are assisting on pre 1998 abuse damages claim involving Lancashire County Council and a asbestos claim re a former stallholder on our old 3 day market</p>

## General Enquiries of Management

Question	Management response
<p>9. Have any of the Blackburn with Darwen Borough Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? If so, please provide further details</p>	<p>We have not been made aware of any instances of this type of issue during the last 12 months.</p>
<p>10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?</p>	<p>Arlingclose – Treasury Management advisors            Croftons Solicitors (Now Knights Professional Services Ltd) and Beever and Struthers – proposed Local Housing Company            Parkinson Real Estate - External valuer for the Town Hall and Turton Tower            PSTAX – advice on complex VAT issues in addition to general support and VAT training for our staff</p>
<p>11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details</p>	<p>Yes we have, covered by bad debt provisions if applicable. These are considered each year as part of our closure process. Significant provision has been made for Council Tax, business rates, housing benefit, sundry debtors, penalty charge notices.</p>



# Fraud

## Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit and Governance Committee and management. Management, with the oversight of the Audit and Governance Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit and Governance Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Blackburn with Darwen Borough Council's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit and Governance Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit and Governance Committee oversees the above processes. We are also required to make inquiries of both management and the Audit and Governance Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from Blackburn with Darwen Borough Council's management.

# Fraud risk assessment

Question	Management response
<p>1. Has Blackburn with Darwen Borough Council assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Council's risk management processes link to financial reporting?</p>	<p>Overall we consider that there is a low risk that the financial statements may be materially misstated due to fraud. There are a number of processes in place to prevent and detect fraud with the accounts. These include:-</p> <ul style="list-style-type: none"> <li>• Via regular monitoring we review expenditure / income throughout the year with the budget holders</li> <li>• Portfolio Finance Officers check accruals for reasonableness, including review of period one transactions</li> <li>• Approval hierarchy / limits in Civica Purchasing – this is the point of authorisation for most of the spending</li> <li>• Approval hierarchy for journals / virements</li> <li>• Internal audit review of main financial control areas linking through to the Annual Governance Statement</li> <li>• Keeping up to date with the latest guidance to ensure proper accounting rules are adhered to.</li> </ul> <p>The Council has appropriate arrangements in place to identify and respond to the risk of fraud. These include the Fraud Policy Statement, Whistle Blowing Policy and Fraud Response Plan. These set out the Council's position regarding this area. There are various processes to highlight fraud risks and raise awareness, these include the circulation of fraud alerts and information received from the National Anti-Fraud Network to relevant managers and staff and the provision of eLearning packages for managers and staff covering fraud awareness, preventing bribery and corruption.</p> <p>The Council has a dedicated whistle blowing phone number in place which is monitored by Audit &amp; Assurance staff who will follow up any calls relating to fraud allegations and carry out appropriate investigations. The audit team are also informed of any potential or suspected fraud which may be brought to managements attention through other channels, such as the corporate complaints process. These are followed up under the whistle blowing policy where relevant. The results are reported to senior management and the Audit &amp; Governance Committee</p> <p>The Council also participates in the National Fraud Initiative (NFI). NFI data matches are followed up by</p>

## Fraud risk assessment

Question	Management response
<p>4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>The Audit &amp; Governance Committee receives regular reports during the year setting out the progress of Audit &amp; Assurance work against the risk based plan. The reports include details of counter fraud investigations that have been carried out during the period, progress of NFI work and the overall opinions for completed audit reviews. The report provides additional details of risks or key issues and weaknesses for any reviews where 'limited' or 'no' assurance opinions have been provided. The results from the audit follow-up of agreed actions plans of completed reviews is also summarised in these reports.</p> <p>The Committee is provided with a briefing session on a specific corporate risk, which it selects, on a regular basis. This allows the members to improve their understanding on the nature of the selected risk and challenge senior officers on the details of the risk and controls in place.</p>
<p>5. Have you identified any specific fraud risks? If so, please provide details</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within Blackburn with Darwen Borough Council where fraud is more likely to occur?</p>	<p>The Council has developed a counter fraud risk register which identifies 13 key areas for the risk of fraud and related controls in place to manage these areas. During 2022/2023 Audit &amp; Assurance staff will work with the key contacts for each risk identified to review and update the details of the risks and controls identified and consider any new areas where there may be significant risk of fraud which need to be considered for inclusion in the register.</p> <p>Audit &amp; Assurance considers the Council's control and risk management framework and processes as part of the development of its risk based plan, which is presented annually to the Audit and Governance Committee for approval, and as part of reviews of the related fundamental financial systems. Whilst areas for improvement have been identified to strengthen controls in place, with some exceptions identified regarding compliance with the controls in place, no material issues have been identified during the year.</p> <p>We do not have any particular concerns that there are any specific areas that are at particular risk of fraud or any locations where fraud is more likely to occur.</p>
<p>6. What processes do Blackburn with Darwen Borough Council have in place to identify and respond to risks of fraud?</p>	<p>The Council has various arrangements in place to identify and respond to the risk of fraud. These include the Fraud Policy Statement, Whistle Blowing Policy and Fraud Response Plan. These documents set out the Council's position regarding this area. There are various processes to highlight fraud risks and raise awareness, these include the circulation of fraud alerts and information received from the National Anti-</p>

# Fraud risk assessment

Question	Management response
<p>7. How do you assess the overall control environment for Blackburn with Darwen Borough Council, including:</p> <ul style="list-style-type: none"> <li>the existence of internal controls, including segregation of duties; and</li> <li>the process for reviewing the effectiveness the system of internal control?</li> </ul> <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)? If so, please provide details</p>	<p>The Council has a comprehensive and robust internal control framework in place, including Financial Regulations, Standing Financial Instructions, Contract and Procurement Procedure Rules, an Officer Scheme of Delegation, a Counter Fraud Policy and Strategy and resource and budget monitoring processes. These various documents and processes are monitored and reviewed periodically to ensure that they are up to date and fit for purpose.</p> <p>Directors are responsible for self-assessing the effectiveness of their arrangements and required to complete a Director's Assurance Statement annually to evidence this as part of the process to support the Annual Governance Statement.</p> <p>Audit &amp; Assurance considers these control processes as part of the development of the risk based plan and as part of reviews of the related fundamental financial systems. Whilst areas for improvement have been identified to strengthen controls in place, and some exceptions were identified regarding compliance with the controls in place no material issues have been identified during the year in respect of the fundamental financial systems.</p>
<p>8. Are there any areas where there is potential for misreporting? If so, please provide details</p>	<p>Accruals and other estimation techniques, however, detailed guidance is sent out to senior management for cascade down to staff in departments. Also, Finance teams work closely with budget holders to advise on recording expenditure and income in the correct accounting period</p>

## Fraud risk assessment

Question	Management response
<p>9. How does Blackburn with Darwen Borough Council communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud? Have any significant issues been reported? If so, please provide details</p>	<p>The Council has an Officer's Code of Conduct which is used to encourage ethical behaviour in staff. This is reviewed annually as part of the review of the Constitution. There are also Standing Financial Instructions relating to Registers of Personal and Business Interests and the receipt of Gifts and Hospitality. An annual email is sent to staff reminding them of the importance of <a href="#">these areas</a> and the need to complete the appropriate declarations and return them to their Directors for consideration.</p> <p>There are is also an online training courses for staff covering Fraud Awareness. Details of how staff can report concerns over any wrong doing is included in the Conduct and Behaviour section of the Intranet. This includes examples of areas of concerns which staff may identify and a link to the Whistleblowing Policy. There is also advice for staff regarding the prevention of procurement fraud. A reminder of the Policy was included in Teamtalk during the year.</p> <p>Staff are expected to report any concerns that they may have regarding any potential or suspected fraud, either to their line manager or to Audit &amp; Assurance.</p> <p>There have been no significant issues reported during the year.</p>
<p>10. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>Those in relation to exchequer functions – making payments / collecting and recording income etc.          Treasury management – dealing with borrowing and investments          HR &amp; Payroll          Posts responsible for procurement activity and raising and approving orders</p> <p>Controls ensuring separation of duties e.g. setting up new vendors; change of bank details; authorisation hierarchy for ordering; set-up / changes to employee details etc. Financial procedures, Procurement and Purchasing Rules and Standing Financial Instructions are in place setting out staff roles and responsibilities.</p>
<p>11. Are you aware of any related party relationships</p>	<p>None that we are aware of currently</p>

## Fraud risk assessment

Question	Management response
<p>12. What arrangements are in place to report fraud issues and risks to the Audit and Governance Committee?</p> <p>How does the Audit and Governance Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>The Audit &amp; Governance Committee receives regular reports from Audit &amp; Assurance setting out the progress of the approved Audit Plan during the year. This includes an update on the progress of work on the follow up of data matches identified from the National Fraud Initiative and any fraud and other investigations and carried out in the period, as well as the overall opinions for the audits finalised in the period and a summary of issues identified where 'limited' or 'no assurance' opinions are provided. The Committee members are able to ask questions of officers during the year regarding the details of the audit work and counter fraud activity reported to clarify any of the details reported and improve their understanding of these areas. The Committee also invites senior officers to provide updates on any significant areas of concern raised in the reports in respect of key or fundamental financial systems.</p> <p>The 2021/22 Internal Audit Annual Opinion Report will be presented to the Committee in June 2022. It concluded that the Council has adequate systems of risk management, control and governance in place which are being applied to an adequate standard.</p> <p>The Committee also receives a Counter Fraud Annual report setting out the results of investigations carried out and counter fraud activity undertaken during the previous year. The 2021/22 report concluded that that the Council had effective measures to enable the prevention and detection of fraud and irregularities.</p>
<p>13. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>Yes. These have been investigated by Audit &amp; Assurance, to establish if there has been any evidence to support the allegations made by the whistle blowers. The findings have been reported to management and the Audit &amp; Governance Committee. No instances of fraud have been identified.</p>
<p>14. Have any reports been made under the Bribery Act? If so, please provide details</p>	<p>No</p>

# Law and regulations

## Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit and Governance Committee, is responsible for ensuring that Blackburn with Darwen Borough Council's operations are conducted in accordance with laws and regulations, including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit and Governance Committee as to whether the body is in compliance with laws and regulations. Where we become aware of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

# Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does Blackburn with Darwen Borough Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?</p>	<p>The Council's Legal &amp; Governance department provides advice on law and regulation on a number of areas that relate to Council's business and activities. In addition, the Contracts &amp; Procurement team also advise on laws and regulations relating to that area. There are a number of qualified legal professionals with expertise in specific areas of the law, who would provide advice and legal support to departments.</p> <p>The Legal &amp; Governance department also includes the Council's Complaints team, who coordinate complaints receive, and where they escalate undertake internal investigation and liaise with the LGO when referred. The consideration and dealing of complaints are supported by qualified legal staff. Any legal issues that are identified from the complaints are actioned appropriately.</p> <p>Instruction of external legal advisers including Counsel as appropriate in complex matters. To update knowledge, qualified legal staff are required to undertake extensive training and collate CPD points-regulated by the Solicitor's Regulatory Authority.</p> <p>The Council's Constitution is regularly reviewed and updated, ensuring that relevant changes in the law are reflected and that the governance framework is legally sound.</p>
	<p>There have been no actual claims for judicial review issued against the Council for a number of years. However, letters before action under the Judicial review protocol were received which were responded to adequately and thereby negating the need for a claim to be made.</p> <p>The Strategic Head of Service (who is also the Monitoring Officer) is the authorised signatory for all court documentation, statutory notices and signing of deeds etc.</p> <p>Regular legal performance information provided to management e.g. children's social care order applications and prosecution numbers.</p>
	<p>The Council has written procedures/protocols to deal with regular situations where we have legal obligations to discharge e.g. Traveller/Unauthorised Encampments-discharge of our legal duties in relation to equalities and human rights, RIPA Procedural Guide, CCTV Policy and Enforcement and Prosecution Policy. Legal &amp; Governance have drafted and advised on</p>



## Impact of laws and regulations

Question	Management response
<p>5. What arrangements does Blackburn with Darwen Borough Council have in place to identify, evaluate and account for litigation or claims?</p>	<p>Claims in Legal services over recent years have generally declined and have been relatively low in value. High risk claims would potentially be monitored via our risk register. Outcomes of cases or situations where the council could be legally challenged tend to be evaluated 'organically' and procedures changed/developed by way of lessons learnt e.g. procedures for remedial action for data breaches-outcomes monitored for the organisation, issues identified from feedback/complaints received and LGO reports etc..</p>
<p>6. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance? If so, please provide details</p>	<p>There are no reports known of that would affect the financial statements.</p>

# Related Parties

## Matters in relation to Related Parties

Blackburn with Darwen Borough Council are required to disclose transactions with bodies/individuals that would be classed as related parties. These may include:

- bodies that directly, or indirectly through one or more intermediaries, control, or are controlled by Blackburn with Darwen Borough Council;
- associates;
- joint ventures;
- a body that has an interest in the authority that gives it significant influence over the Council;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Council, or of any body that is a related party of the Council.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Council's perspective but material from a related party viewpoint then the Council must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

## Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties including those disclosed in Blackburn with Darwen Borough Council's 2020/21 financial statements?</p> <p>If so please summarise:</p> <ul style="list-style-type: none"> <li>the nature of the relationship between these related parties and Blackburn with Darwen Borough Council</li> <li>whether Blackburn with Darwen Borough Council has entered into or plans to enter into any transactions with these related parties</li> <li>the type and purpose of these transactions</li> </ul>	<p>The Council has an interest (49%) in Maple Grove Blackburn Limited, a joint venture company with the aim of acquiring and preparing sites within the Borough in order to facilitate the development of the town centre. During the year the Council has given the company additional loans of £1.2M, being its share to be used towards the purchase of the former Thwaites site.</p> <p>The Council has an interest (25%) in Barnfield Blackburn Limited, a joint venture company with the aim of acquiring and preparing development sites within the Borough in order to facilitate growth in jobs and housing. During the year the Council has given the company additional loans of £0.25M, being its share to be used towards the acquisition of Blakey Moor Building.</p>
<p>2. What controls does Blackburn with Darwen Borough Council have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>Registers of Interest for staff and Members maintained</p> <p>Related party relationships and transactions are fully reviewed as part of the closure process and all significant transactions disclosed in the notes to the accounts. Members Register of Interest reviewed for personal / business interest with which the Council has transactions. Management Board (Chief Executive &amp; Directors) each required to make a personal return in respect of their own / any family members potential interests</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>Decision making hierarchy specified within the Council's Constitution. Significant transactions would be classed as "Key Decisions", which require reporting to / decision making by the Executive Board.</p> <p>Finance Managers receive weekly email with links to Officer / Exec Member / Exec Board decisions taken</p>
<p>194. What controls are in place to authorise and approve significant transactions outside of the</p>	<p>As above</p>

# Going Concern

## Matters in relation to Going Concern

The audit approach for going concern is based on the requirements of ISA (UK) 570, as interpreted by Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020). It also takes into account the National Audit Office's Supplementary Guidance Note (SGN) 01: Going Concern – Auditors' responsibilities for local public bodies.

Practice Note 10 confirms that in many (but not all) public sector bodies, 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 body'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.

For this reason, a straightforward and standardised approach to compliance with ISA (UK) 570 will often be appropriate for public sector bodies. This will be a proportionate approach to going concern based on the body's circumstances and the applicable financial reporting framework. In line with Practice Note 10, the auditor's assessment of going concern should take account of the statutory nature of the body and the fact that the financial reporting framework for local government bodies presume going concern in the event of anticipated continuation of provision of the services provided by the body. Therefore, the public sector auditor applies a 'continued provision of service approach', unless there is clear evidence to the contrary. This would also apply even where those services are planned to transfer to another body, as in such circumstances, the underlying services will continue.

For many public sector bodies, the financial sustainability of the body and the services it provides are more likely to be of significant public interest than the application of the going concern basis of accounting. Financial sustainability is a key component of value for money work and it is through such work that it will be considered.

# Going Concern

Question	Management response
<p>1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by Blackburn with Darwen Borough Council will no longer continue?</p>	<p>The Council has set a balanced budget as approved at Finance Council each year. The budget presented represent the Council's priorities for the coming financial year and does not identify and events or conditions that would indicate statutory services being provided by the Council will no longer continue. The budget is presented alongside the Council's Medium Term Financial plan for three financial years and does not project a circumstance in which statutory services would no longer be provided. Revenue monitoring reports are taken to Executive Board on a quarterly basis to provide the Council's forecast position and this would be the Forum that would flag any such events or circumstances in year that would lead to a cessation of services, none have been identified.</p>
<p>2. Are management aware of any factors which may mean for Blackburn with Darwen Borough Council that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?</p>	<p>Management are not aware of any factors which may mean for Blackburn with Darwen Borough Council that either statutory services will no longer be provided or that funding for statutory services will be discontinued</p>
<p>3. With regard to the statutory services currently provided by Blackburn with Darwen Borough Council, does Blackburn with Darwen Borough Council expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for Blackburn with Darwen Borough Council to cease to exist?</p>	<p>Blackburn with Darwen Borough Council expects to continue to deliver all statutory services for the foreseeable future.</p>
<p>4. Are management satisfied that the financial reporting framework permits Blackburn with Darwen Borough Council to prepare its financial statements on a going concern basis? Are management satisfied that preparing financial statements on a going concern basis will</p>	<p>Management are satisfied that the financial reporting framework permits Blackburn with Darwen Borough Council to prepare its financial statements on a going concern basis? Management are satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial statements.</p>

# Accounting estimates

## Matters in relation to accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess a body's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the body's risk management process identifies and addresses risks relating to accounting estimates;
- The body's information system as it relates to accounting estimates;
- The body's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit and Governance Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

We would ask the Audit and Governance Committee to satisfy itself that the arrangements for accounting estimates are adequate.

# Accounting Estimates - General Enquiries of Management

Question	Management response
<p>1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?</p>	<p>Those where the basis of measurement for the amount recognised in the accounts is uncertain, therefore an estimation technique is required, e.g.:</p> <ul style="list-style-type: none"> <li>• Accruals of expenditure and income</li> <li>• Valuation and depreciation of property, plant and equipment assets</li> <li>• Fair value measurements</li> <li>• Impairment allowance offset against arrears</li> <li>• Assumptions made when calculating accounting provisions</li> <li>• The valuation of the Pensions liability</li> </ul>
<p>2. How does the Council's risk management process identify and address risks relating to accounting estimates?</p>	<p>Included within guidance issued / procedures followed in relation to the annual closure of accounts process. For example detailed guidance on the requirement to make accruals to ensure expenditure and income is recorded in the correct accounting period</p>
<p>3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?</p>	<p>Management follows the latest professional guidance to assist in identifying issues that may impact on accounting assumptions and estimates used in preparing the statement of accounts e.g. events causing increased uncertainties. Also, discuss with:</p> <ul style="list-style-type: none"> <li>• LCFO's Finance Sub Group and G M Chief Accountant's groups to compare approach; and</li> <li>• external audit regarding any new areas they will be focussing on</li> </ul> <p>Assumptions / source data is taken from historical data wherever possible amended to reflect known / likely changes</p>
<p>4. How do management review the outcomes of previous accounting estimates?</p>	<p>Comparison of actual outcomes to estimates made – review and update historical information to inform future estimates</p>
<p>5. Were any changes made to the estimation processes in 2021/22 and, if so, what was the reason for these?</p>	<p>Review of sundry debt and impact of restrictions due to pandemic on collectability of debt – impact on potential write-offs and calculation of bad debt provision. Also assumptions regarding collectability of council</p>

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6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?	If estimates involve specialised professional judgements and access to specific relevant data, which the Finance team do not have / have access to, then a relevant expert / advisor is needed e.g. Treasury Management Advisors / Property Valuers / Pensions Actuaries
7. How does the Council determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	For significant accounting estimates provided by the advisors above, the Finance team will review supplementary information to support the calculations provided by the advisors and discuss the methodology to ensure they understand the estimates made
8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	<p>The Council is starting to review evidence to support property valuations on a sample basis in order to challenge the valuations carried out. An exercise is also carried out to compare the movement in valuations to that expected by an uplift in sector specific indices.</p> <p>Terms of engagement have been issued to the internal valuer and independent valuations have been obtained for Turton Tower and the Town Hall.</p>
<p>9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including:</p> <ul style="list-style-type: none"> <li>- Management's process for making significant accounting estimates</li> <li>- The methods and models used</li> <li>- The resultant accounting estimates included in the financial statements.</li> </ul>	<ul style="list-style-type: none"> <li>• Finance Managers review evidence of accruals requested by budget holders.</li> <li>• Month1 creditor payments are reviewed to ensure all either relate to the new year or have been accrued for</li> <li>• Outstanding purchase orders are reviewed by budget holders / finance teams during the last quarter of the year to ensure system generated accruals are appropriate</li> <li>• Internal audit review of financial reporting and accounting estimates</li> </ul>



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10. Are management aware of any transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)? If so, what are they?	Possibly accounting treatment of various Covid related grants but otherwise no  Infrastructure assets
11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?	Yes, see Appendix A
12. How is the Audit and Governance Committee provided with assurance that the arrangements for accounting estimates are adequate ?	Not explicitly reported to Audit & Governance Committee currently but specific disclosures are included within the Statement of Accounts  A short presentation / training session was undertaken with the Audit & Governance Committee to raise awareness of the accounting estimates used in the preparation of the Council's accounts  The Section 151 Officer signs off and all evidence in statement of accounts, true and fair view

## Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Land and buildings valuations	<p>Management engage a valuation expert, who is a member of the Council's Property Team, to undertake a sample of property valuations each year.</p> <p>Properties are valued in line with accounting standard requirements and in accordance with the applicable RICS standards.</p>	Appropriately qualified valuer is engaged to undertake valuations.	Yes	Since valuations are compiled by an expert using recognised measurement techniques and based on professional guidance, the underlying data is considered to be reliable and the scope to use judgement and change assumptions limited.	No
Investment property valuations	As above.	As above.	Yes	<p>As above.</p> <p>The Council only has one investment property (TV Relay Station) which is not of significant value (~£50,000) so changes in the estimate of fair value are unlikely to have a material impact.</p>	No
Depreciation	Civica Asset Register used to calculate amounts generated	Suitably qualified officers/valuer advice	Yes	The main assumption in the depreciation is the useful life of the asset	No

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Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Valuation of defined benefit net pension fund liabilities	<p>The Projected Unit method of valuation is used to calculate:</p> <ul style="list-style-type: none"> <li>benefit obligation (liability) - the total present value of individual scheme members benefits in relation to service completed up to the date of the calculations</li> <li>Service cost - the total present value of individual scheme members benefits which is attributable to service during the accounting period</li> </ul>	Appropriately qualified experts used to derive valuations.	Actuarial services including calculation of accounting information provided by Scheme Actuary - Mercers	<p>Detailed information to support calculations and assumptions used is provided by the Actuary based on data submitted by the employer. The Council has not been subject to:</p> <p>Significant increases in pay inflation</p> <ul style="list-style-type: none"> <li>Significant outsourcing / bulk transfer of scheme members</li> <li>Amalgamation/reorganisation</li> <li>Significant redundancy/restructuring programs</li> <li>Average pay increases significantly in excess of assumptions adopted</li> </ul>	Yes, prepayment will reduce liability from that assessed by Actuary Also fundamental changes in market- implied RPI due to a change in the RPI formula has impacted on Actuary's assumptions for CPI
Level 2 investments	Fair value is calculated from inputs other than quoted prices that are observable for the asset or liability, e.g. interest rates or yields for similar instruments	Appropriately qualified experts used to derive valuations.	Fair value calculations provided by Arlingclose	<p>The Council does not have any complex investments with high degrees of uncertainty.</p> <p>Where level 1 inputs are not available, the Council employs relevant experts to identify the most appropriate valuation</p>	No

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Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provisions – last year this question specifically mentioned Business Rates Appeals	Data from VOA for both 2010 List appeals and 2017 List Check, Challenge, Appeal data	Approach discussed at GM Collection Fund Accounting Group	No	Uncertainty due to variance in appeal decisions and significant backdating re 2010 list. Check, Challenge, appeal system has curtailed activity to some extent	No
Accruals	Creditors generated by Purchasing Module of Civica where orders receipted but not paid at 31/03/21.	Detailed guidance issued to budget holders and manual accruals reviewed by Finance team prior to input. Transactions in first month of new year examined to identify if accruals have been missed	No		No
Credit loss and impairment allowances	Consideration of age profile of arrears and other specific issues impacting on collectability of debt	Calculation done corporately then reviewed by service finance officers with more in depth knowledge of specific	No	Covid pandemic has impacted on ability of debtors to clear arrears – in particular Markets / Commercial Properties but these areas have been subject to greater scrutiny over the past year	No

## Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Finance lease liabilities	Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor.	Experts used where appropriate.	A valuer is engaged to provide the asset fair value where appropriate.  Where appropriate, management will engage with Arlingclose.	There is a limited degree of uncertainty involved with Finance Lease Liabilities.  Leases are classified as appropriate at inception and accounted for in line with the applicable accounting standards.	No
PFI Liabilities	PFI Accounting model reflecting changes in RPIx	Accounting model	The Council worked with advisors to construct the initial model that has been used for and audited throughout the life of the scheme's to date	There is a limited degree of uncertainty as the significant values in the contract are fixed. He model uses RPIx to identify changes	No



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