

Internal

19 November 2024

To Audit & Governance Committee Chair
Blackburn with Darwen Borough Council
Town Hall
Blackburn
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Grant Thornton UK LLP
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Dear Councillor Whittingham

**Blackburn with Darwen Borough Council: Conclusion of the audit for 2022/23–
letter to those charged with governance on the application of the local authority
backstop**

As you will be aware, on 5 September 2024 parliament approved the Accounts and Audit (Amendment) Regulations 2024. These Regulations set a publication date for financial statements up to and including 2022/23 by 13 December 2024. The new National Audit Office Code which is expected to be approved by 14 November, also requires that auditors should issue their audit report in time for the relevant authority to publish its accounts by the specified date in those Regulations. Where audit work is not concluded, this will result in either a qualification or disclaimer of opinion.

As discussed with your Strategic Director of Finance and Resources, and for reasons which I set out in more detail below, it will not be possible for us to complete our audit for 2022/23 by the statutory backstop date. We therefore propose to issue a disclaimer of our audit opinion. I attach a draft copy of this disclaimer for the attention of the Audit and Governance Committee.

We are required under Auditing Standards to report certain matters to the Audit and Governance Committee, including our responsibilities as auditor, the scope of the audit, independence, audit fees and any matters arising from the audit. I set out more details on the audit below. Information regarding our responsibilities, the scope of the audit and fees are included in the Appendix 1.

Outcome of our audit for 2022/23 – Disclaimer of the opinion on the financial statements

For reasons set out below, it will not be possible for us to undertake sufficient work to support an audit opinion by the statutory deadline of 13 December 2024. This means that the limitations of scope imposed by the backstop are pervasive and therefore we have been unable to form an opinion on the financial statements by the due date. We therefore plan to issue a disclaimer of the audit opinion. We have attached the draft wording of our Audit Report for your information at Appendix 2.

We completed our audit of the financial statements for the period ending 31 March 2022 on 21 March 2024. The completion of the 2021/22 audit was delayed whilst the Council responded to audit queries in respect of the valuation of property, plant and equipment, specifically in relation to assets measured at Depreciated Replacement Cost (DRC).

Given the ongoing delays with the 2021/22 audit, we paused the Council's 2022/23 audit in October 2023 noting the Council had not published its draft 2022/23 accounts at that time. Consequently, the audit team in place at that time to undertake the 2022/23 audit was re-deployed in order to progress other local government audits. The Council subsequently published its draft Financial Statements for the year ending 31 March 2023 on 2 April 2024, by which time we no longer had capacity to undertake and complete the Council's audit by the backstop deadline.

Chartered Accountants

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We wrote to the Council on 8 April 2024 and again on 18 June 2024 setting out that, due to these issues, it was our view that there was no realistic prospect of the audit of Council's 2022/23 financial statements being completed in advance of the December 2024 backstop deadline.

Outcome of this year's audit - Value for Money work and other work under the National Audit Office Code of Audit Practice

We undertook our Value for Money work for the years ending 31 March 2022 and 31 March 2023 and reported the outcome in a combined Annual Audit Report dated March 2024. This report was presented to the Audit and Governance Committee on 18 March 2024.

The key findings for the year 31 March 2022 and for the year 31 March 2023 noted one significant weakness in relation to governance as follows:

- The Council need to improve procedures for valuing land and building assets to ensure compliance with requirements and implement effective quality review processes to ensure draft financial statements are in accordance with accounting requirements and free from material error to allow for timely publication.

We are also required to report by exception if we have applied any of our statutory powers or duties.

We have nothing to report in respect of the above.

Independence

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 and consider that an objective reasonable and informed third party would take the same view. 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. 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.

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.

Management letter of representation

We have asked management to provide a letter of representation in respect of the financial statements covering 2022/23. This will be tabled as a separate agenda item.

Looking ahead

The circumstances resulting in the application of the local authority backstop are clearly extremely unusual. The government has signalled its intent that where backstops have been applied, local authorities and their auditors work together to recover the position over subsequent years. We have already begun discussions with the Council's new auditors to work toward a timely and efficient audit handover.

Yours sincerely

John Farrar

For Grant Thornton UK LLP

CC Strategic Director of Finance and Resources

Internal

Attachments: Draft Disclaimer of Opinion

Appendix 1

Responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of [audited body name]. We draw your attention to both of these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit & Governance committee); and we consider whether there are sufficient arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently in order to maximise the outcomes that can be achieved.

The audit of the financial statements does not relieve management or the Audit & Governance Committee of its responsibilities. It is the responsibility of the authority to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the authority is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the authority's business and is risk based.

Audit Plan

Due to delays in the completion of prior year audits, we were unable to issue an audit plan in respect of this audit year.

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.

Due to delays in the completion of prior year audits, we were unable to finalise a materiality level for 2022/23.

Key financial reporting and audit issues identified during the audit

As we have not undertaken any detailed work in respect of this year's financial statements audit, there are no issues we need to draw to your attention.

Going Concern

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).

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 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 authority'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 a local authority meets this criteria, and so where undertaking work on your audit, we would normally expect to apply the continued provision of service approach. In doing so, we would consider and evaluate:

- the nature of the authority and the environment in which it operates
- the authority's financial reporting framework
- the authority's system of internal control for identifying events or conditions relevant to going concern
- management's going concern assessment.

As we have been unable to form an opinion on the financial statements, we are unable to draw a conclusion in this area.

Design effectiveness of internal controls

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to management.

We have nothing to report in respect of the above.

Other matters which we are required to report on to those charged with governance

We are required to confirm the following:

- We have not been made aware of any incidents of fraud in the period and no issues have been identified during the course of our audit procedures.
- We are not aware of any related party transactions which have not been disclosed.
- We are not aware of any significant incidences of non-compliance with applicable laws and regulations.

Audit fees and non-audit fees

PSAA set a scale fee for this year's audit of £89,811 +VAT. Given the unusual circumstances of the backstop, we are awaiting a determination from PSAA to then confirm an appropriate fee to be charged for this audit year.

We have also undertaken the following non-audit work in respect of 2022/23.

Audit Service	Proposed Fee	Final Fee
Audit of housing benefits grant return year ending 31 March 2023	£40,365	£42,885
Audit of Teachers' Pensions return year ending 31 March 2023	£10,000	£10,000

For the 2023/24 financial year we have proposed grant certification fees of £12,500 for the audit of the Teachers' Pensions return and £42,960 for the audit of the housing benefits grant return. We will agree final fees with the Council on completion of our work.

The level of these recurring fees taken on their own is not considered a significant threat to independence in comparison to the total fee for the audit of £89,811 +VAT for 2022/23 and in particular relative to Grant Thornton UK LLP's turnover overall. Further there is no contingent element to it. These factors all mitigate any perceived self-interest threat to an acceptable level.

Appendix 2

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

Report on the audit of the financial statements

Disclaimer of opinion

We were engaged to audit the financial statements of Blackburn with Darwen Borough Council (the 'Authority') for the year ended 31 March 2023, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Income and Expenditure 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 2022/23.

We do not express an opinion on the accompanying financial statements of the Authority. Because of the significance of the matter described in the basis for disclaimer of opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for disclaimer of opinion

We are required under International Standard on Auditing (UK) 580 to obtain representations from management as part of our audit procedures. These include statements that management have fulfilled their responsibility for the preparation of the financial statements in accordance with the applicable financial reporting framework, that they have provided the auditor with all relevant information and access as agreed in the terms of the audit engagement and that all transactions have been recorded and are reflected in the financial statements. Management have not provided us with the full set of representations which we require and as a result we have concluded that the possible effects on the financial statements arising from this matter could be both material and pervasive.

In addition, the Accounts and Audit (Amendment) Regulations 2024 ('the Regulations') require the Authority to publish audited financial statements for the year ended 31 March 2023 by 13 December 2024 ('the backstop date'). The backstop date has been put in law with the purpose of clearing the backlog of historical financial statements. We have not been able to obtain sufficient appropriate audit evidence by the backstop date to conclude that the Authority's financial statements for the year ended 31 March 2023 as a whole are free from material misstatement. We were also unable to obtain sufficient appropriate evidence for the corresponding figures for the same reason. We have therefore issued a disclaimer of opinion on the financial statements. This enables the Authority to comply with the requirement in the Regulations that they publish audited financial statements for the year ended 31 March 2023 by the backstop date. We have concluded that the possible effects on the financial statements of undetected misstatements arising from this matter could be both material and pervasive.

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

Because of the significance of the matter described in the basis for disclaimer of opinion section of our report, we have been unable 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.

Opinion on other matters required by the Code of Audit Practice

The Strategic Director of Finance and Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the Authority's financial statements and our auditor's report thereon. Because of the significance of the matter described in the basis for disclaimer of opinion section of our report, we have been unable to form an opinion, whether based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, whether 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.

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 and the Strategic Director of Finance and Resources

As explained more fully in the Statement of Responsibilities, 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 Strategic Director of Finance and Resources. The Strategic Director of Finance and Resources 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 2022/23, for being satisfied that they give a true and fair view, and for such internal control as the Strategic Director of Finance and Resources 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 Strategic Director of Finance and Resources 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 they have been informed by the relevant national body of the intention to dissolve the Authority without the transfer of its services to another public sector entity.

Auditor's responsibilities for the audit of the financial statements

Our responsibility is to conduct an audit of the Authority's financial statements in accordance with International Standards on Auditing (UK) and to issue an auditor's report. However, because of the matter described in the basis for disclaimer of opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on those financial statements.

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.

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.

The audit was defective in its ability to detect irregularities, including fraud, on the basis that we were unable to obtain sufficient appropriate audit evidence due to the matter described in the basis for disclaimer of opinion section of our report.

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 2023.

We have nothing to report in respect of the above matter except on 21 March 2024 we identified a significant weakness in the Authority's arrangements for governance for the year ended 31 March 2022. The significant weakness related to land and buildings valuations for financial reporting purposes.

We recommended that the Authority should improve its procedures for valuing its land and buildings to ensure compliance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting and put effective quality review processes in place to ensure draft financial statements are in accordance with accounting requirements and free from material error in order to allow for timely publication of audited financial statements.

These recommendations had not been actioned during the year ended 31 March 2023 and as such the significant weakness remained in place.

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.

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 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 October 2024. 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.
- o 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 – Audit certificate

We certify that we have completed the audit of Blackburn with Darwen Borough Council for the year ended 31 March 2023 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Report on other legal and regulatory requirements – Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for Blackburn with Darwen Borough Council for the year ended 31 March 2023 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the [Authority – please amend accordingly to the body] for the year ended 31 March 2023. We are satisfied that this work does not have a material effect on the financial statements for the year ended 31 March 2023.

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 44 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.

John Farrar, Key Audit Partner

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

Liverpool

Date: TBC

Commented [CW1]: Both options in terms of Audit certificate retained at this stage as we will not issue opinion until post Audit and Governance Committee meeting scheduled for 26 November 2024, with NAO confirmation of requirements expected before end of November 2024.