



The Annual Audit Letter for Blackburn with Darwen Borough Council

Year ended 31 March 2019

31 October 2019



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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Blackburn with Darwen Borough Council (the Council) for the year ended 31 March 2019.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit and Governance Committee as those charged with governance in our Audit Findings Report on 6th August 2019 and in our addendum dated 11 September 2019.

Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £7,182,000, which is 1.8% of the Council's prior year gross revenue expenditure.
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 30 September 2019.
Whole of Government Accounts (WGA)	We issued our assurance statement to confirm that the Council's income, expenditure and balances did not exceed the NAO's threshold and no detailed work was required.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Executive Summary

Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 30 September 2019.
Certification of Grants	We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions and to certify the Council's Teacher's Pensions return. Our work on these claims is not yet complete and will be finalised by 30 November 2019. We will report the results of this work to the Audit and Governance Committee separately. In November 2018 we completed our work on the 2017/18 Housing Benefit Subsidy claim. The claim was of a good standard and we only found one issue, relating to an income disregard not being properly applied, leading to an underpayment of benefit. The finding was summarised in a Qualification Letter to the DWP.
Certificate	We certified that we have completed the audit of the financial statements of Blackburn with Darwen Borough Council in accordance with the requirements of the Code of Audit Practice on 30 September 2019.

Working with the Council

During the year we have delivered a number of successful outcomes with you:

- Delivering an efficient and high-quality audit, which included identifying several audit adjustments, particularly in relation to the incorrect inclusion of recharges in the draft financial statements
- Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness.

- Sharing our insight – we provided regular Audit and Governance Committee updates covering best practice. We also shared our thought leadership reports
- Providing training – we provided your teams with training on financial statements and annual reporting
- Support outside of the audit including the provision of insight and analysis tools.

We would like to record our appreciation for the assistance provided to us during our audit by the Council.

Grant Thornton UK LLP
October 2019

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the Council's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Council's financial statements to be £7,182,000, which is 1.8% of the Council's prior year gross revenue expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We set a lower threshold of £359,000, above which we reported errors to the Audit and Governance Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the financial statements and the narrative report and annual governance statement published alongside the financial statements to check it is consistent with our understanding of the Council and with the financial statements included in the Annual Report on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of land and buildings</p> <p>The Authority revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the:</p> <ul style="list-style-type: none"> size of the numbers involved, for example the net book value of land and buildings as at 31 March 2018 was £227.3m; and the sensitivity of this estimate to changes in key assumptions. <p>Additionally, management will need to ensure the carrying value in the Authority financial statements is not materially different from the current value or the fair value for surplus assets at the financial statements date, where a rolling programme is used. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> evaluated and challenged management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work evaluated the competence, capabilities and objectivity of the valuation expert written to the valuer to confirm the basis on which the valuation was carried out challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding tested revaluations made during the year to see if they had been input correctly into the Authority's asset register evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end. 	<p>Our work on this significant risk identified the following:</p> <ul style="list-style-type: none"> an adjustment to the accounts was required due to a revaluation being posted to the wrong school on the asset register. The error resulted in PPE being overstated by approximately £5m. a revaluation was incorrectly posted to one component in the asset register, however it should have been split with a second component, resulting in £451k being included twice. This error was not adjusted for. a number of downwards revaluations on surplus assets, totalling £4.594m, were posted to the surplus/deficit on provision of services, whereas they should have been posted to the revaluation reserve. This error, which was adjusted for. <p>No further issues were identified in relation to the valuation of land and buildings.</p>

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of net pension liability</p> <p>The Authority'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:</p> <ul style="list-style-type: none"> • size of the numbers involved, with the pension scheme liability estimated at £249.2m as at 31 March 2018; and • the sensitivity of the estimate to changes in key assumptions. <p>We therefore identified valuation of the Authority's pension fund net liability as a significant risk.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • tested 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; • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performed any additional procedures suggested within the report; and • obtained assurances from the auditor of Lancashire County Council Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. 	<p>An additional review was completed by the Council as a result of the McCloud ruling, where the Court of Appeal ruled that there was age discrimination in pension schemes for judges and firefighters where there were transitional protections given to scheme members, and this legal ruling has impacts for other public service schemes including the Local Government Pension Scheme. This additional review was completed with the Pension Fund and Actuary, to identify the impact on the pension liability. Our additional work on this issue included reviewing the output from this additional review and the proposed disclosure within the Statement of Accounts.</p> <p>The results from this additional review showed an increased past service cost of £5,855k. The Council did not adjust for this on the basis that it was not material.</p> <p>No further issues were identified in relation to the valuation of the net pension liability.</p>

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Management override of internal controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority 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, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our audit work we;</p> <ul style="list-style-type: none"> • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. 	<p>We identified within our testing that the Council's S151 Officer input 48 journals relating to 2018-19. Our review of these journals confirmed that these related to reclassifications within the ledger. We were satisfied that there was no evidence of management override of controls.</p> <p>In all organisations, a senior officer's ability to process journal entries increases the actual, and perceived, risk of management overriding controls. We therefore raised a control finding for the Council to consider restricting the access levels in the main accounting system to prevent senior management from inputting journals.</p> <p>No further issues were identified in relation to management override of controls.</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 30 September 2019.

Preparation of the financial statements

The Council presented us with draft financial statements in accordance with the national deadline, and provided working papers to support them. The finance team responded to our queries during the course of the audit to allow the opinion to be issued in September 2019.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Council's Audit and Governance Committee on 6 August 2019 and in an addendum dated 11 September 2019.

In addition to the key audit risks reported above, the main issue arising from our audit related to the Council's income and expenditure figures including approximately £23million of internal recharges in the draft version of the accounts. Inclusion of the recharges does not adhere to the requirements set out in the CIPFA Code of Practice on Local Authority Accounting and the majority of them were removed from the final version of the Council's Statement of Accounts.

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website in the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance, though some enhancement to the Narrative Report was required to include further performance information. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)

We issued an assurance statement which confirmed the Council was below the audit threshold.

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of Blackburn with Darwen Borough Council in accordance with the requirements of the Code of Audit Practice on 30 September 2019.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work. The risks we identified and the work we performed are set out overleaf.

As part of our Audit Findings report agreed with the Council in August 2019, we agreed recommendations to address our findings. We made one recommendation relating to the VfM Conclusion which was for the Council to continue to focus on efficiencies and transformation to achieve significant savings. We made this recommendation to address the risk that remains on the Council's financial position, with an estimated budget-gap of £6.6m by the end of 2021/22.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2019.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Financial sustainability</p> <p>Blackburn with Darwen, in line with other authorities, continues to operate under significant financial pressures. The Council has currently identified two directorates with projected overspends, and cost pressures within three others.</p>	<p>We monitored the Council's financial position through regular meetings with senior management and review of key documents including:</p> <ul style="list-style-type: none"> the Medium Term Financial Strategy budget monitoring reports. <p>We considered how the Authority manages budget delivery and also the key assumptions made to financial plans to meet the challenges ahead. Our VfM linked through to our audit of your financial statements, particularly around going concern. We also assessed progress in the identification and delivery of plans to address the funding gaps into 2019/20 and beyond.</p>	<p>The Outturn report for 2018/19 highlighted that the net portfolio controllable budgets, covering the key Council services, had an overspend of £2.8million. The main areas of overspend were:</p> <ul style="list-style-type: none"> £1.4million in relation to 'Children, young people and education' £0.9million for Environmental Services £0.5million on Leisure services <p>Overspends in Children Services are common across many councils due to the difficulties in managing demand. In relation to Environmental Services, the achievability of income targets were a main reason behind the overspend for example due to the late introduction of car park price increases. Other cost pressures exist in the service due to increasing costs in waste disposal services.</p> <p>The impact on the general fund balance from such overspends were offset by a number of positive variations, the largest being:</p> <ul style="list-style-type: none"> Net savings in respect of interest and debt repayment costs of £1.126million Unused provisions written back in to revenue of £0.473million Carbon Reduction Commitment saving of £0.242million <p>Similarly to other councils, Blackburn with Darwen does not deliver all of its approved capital programme during the year. Understandably the main focus when reviewing financial performance is usually linked to the delivery of the revenue budget. The programme approved by the Executive Board in February 2019 totalled £28.7million, with only £20.4million delivered. Delivery issues relating to the capital programme are being addressed in the current financial year through enhanced arrangements to improve approval and monitoring processes.</p> <p>The Medium Term Financial Strategy (MTFS) for 2019/20 identified a budget gap of £4.9 million and was based on financial and demand information available to the Council in January/February 2018. During the year pressures emerged that were not built into these figures, particularly relating to social care. To address such pressures the Council's budget was supported by a contribution from reserves of £1.03m but, as some of the additional costs are of a recurring nature, further action will be required.</p> <p>The Council's current MTFS covers the period up to 2021/22. Usually the Council's MTFS would cover three future years however, due to funding uncertainties, it was decided that it would not be appropriate to extend through to 2022/23. Within the MTFS the Council estimates a deficit of £6.6million by the end of 2021/22, with other scenarios set out in the strategy suggesting that this deficit may actually be higher.</p> <p>From the MTFS it is unclear how the Council will close the gap, however it does have a track record of delivering savings and will continue to develop its plans as funding settlements become clearer.</p>

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and, on the following page, the fees for the provision of additional audit and non-audit services.

Reports issued

Report	Date issued
Audit Plan	April 2019
Audit Findings Report	August 2019
Audit Findings Report Addendum	September 2019
Annual Audit Letter	October 2019

Fees

	Planned £	Proposed final £	2017/18 £
Statutory audit	83,186	92,186	106,839

Audit fee variation

As outlined in our audit plan, the 2018/19 planned fee of £83,186, which includes an additional £4,000 as the Council is a Public Interest Entity and requires an 'Enhanced Audit Report', assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following table.

Area	Reason	Fee proposed £
Assessing the impact of the McCloud ruling	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we have reviewed the revised actuarial assessment of the impact on the financial statements along with any audit reporting requirements.	3,000
Pensions – IAS 19	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year to reflect this.	3,000
PPE Valuation – work of experts	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	3,000
Total		9,000

All of the fee variations are subject to PSAA approval.

A. Reports issued and fees continued

Fees for non-audit services

Service	Fees £
Audit related services	
- Housing Benefit Subsidy Claim Certification	7,750
- Teachers Pension Return Certification	4,200
Non-Audit related services	
- CFO Insights Subscription	10,000
- Place Analytics License	14,000

Non-audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

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



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