

# The Audit Findings for Burnley Borough Council

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**Year ended 31 March 2016**

26 August 2016

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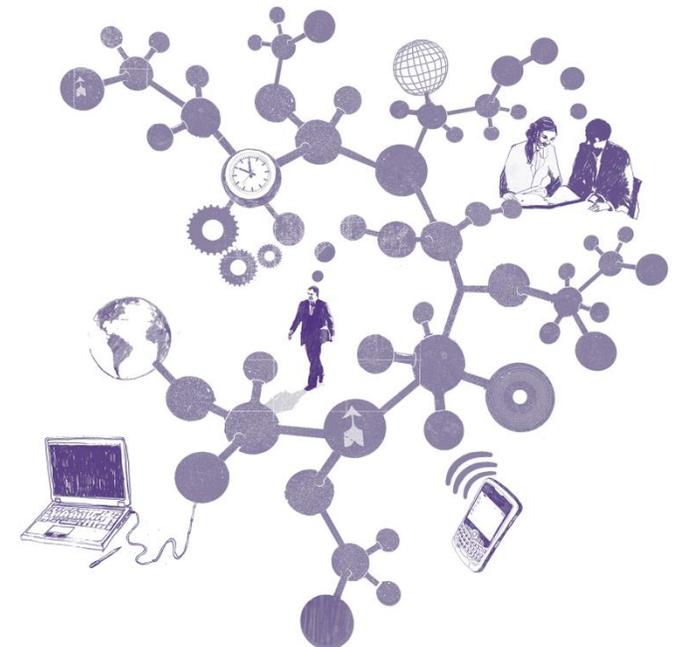
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21 September 2016

Dear Members of the Audit and Standards Committee

**Audit Findings for Burnley Borough Council for the year ending 31 March 2016**

This Audit Findings report highlights the key findings arising from the audit for the benefit of those charged with governance (in the case of Burnley Borough Council, the Audit and Standards Committee), as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with the Director of Resources.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. 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 you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours sincerely

Karen Murray

**Chartered Accountants**

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## **Appendices**

A Audit opinion

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# Section 1: Executive summary

**01. Executive summary**

**02. Audit findings**

**03. Value for Money**

**04. Fees, non audit services and independence**

**05. Communication of audit matters**

We anticipate providing an unqualified opinion on the financial statements and an unqualified value for money conclusion

## Purpose of this report

This report highlights the key issues affecting the results of Burnley Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2016. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. .

We are also required consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with required guidance.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').

Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);

- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act)

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

## Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 26 February 2016.

At 23 August our audit is substantially complete although we are finalising our procedures in the following areas:

- review of the final version of the financial statements
- obtaining and reviewing the management letter of representation
- review of final version of the Annual Governance Statement and
- updating our post balance sheet events review, to the date of signing the opinion

We received draft financial statements on 8<sup>th</sup> June 2016 and a comprehensive set of working papers at the commencement of our work, in accordance with the agreed timetable.

## **Key audit and financial reporting issues**

### **Financial statements opinion**

We have not identified any adjustments affecting the Council's reported financial position. Both the draft financial statements and the audited financial statements show net income expenditure of £10,345k. We have however recommended a number of adjustments to improve disclosures and the presentation of the financial statements.

The key messages arising from our audit of the Council's financial statements are:

- the draft accounts were prepared to a good standard and were ready well in advance of the 30 June deadline;
- the accounts were supported by comprehensive and good quality working papers;
- the finance team responded knowledgeably and promptly to audit queries
- there are no significant amendments required to the main financial statements

Further details are set out in section two of this report.

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix A).

### **Other financial statement responsibilities**

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes if the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit.

Based on our review we are satisfied that the Annual Governance Statement is not inconsistent with the information of which we are aware of from our audit.

## **Controls**

### **Roles and responsibilities**

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

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 report these to the Council.

### **Findings**

Our work has not identified any control weaknesses which we wish to highlight for your attention.

Further details are provided within section two of this report.

## **Value for Money**

Based on our review, we are satisfied that, in all significant respects, the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Further detail of our work on Value for Money are set out in section three of this report.

## **Other statutory powers and duties**

We have not identified any issues that have required us to apply our statutory powers and duties under the Act, in particular:

- we have not identified any matters that would require a public interest report to be issued
- we have not made any written recommendations that the Council is required to respond to publicly
- we have not made any application to the court for a declaration that an item of account is contrary to law
- we have not issued an advisory notice to the Council
- we have not made any application for a judicial review.

## **Whole of Government Accounts**

We have confirmed that the Councils income, expenditure and balances are below the threshold that would require us to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.

## **Grant certification**

In addition to our responsibilities under the Code, we are required to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. At present our work on this claim is in progress and is not due to be finalised until 30 November 2016. We will report the outcome of this certification work through a separate report to the Audit and Standards Committee.

## **The way forward**

Matters arising from the financial statements audit and our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Director of Resources.

## **Acknowledgement**

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

**Grant Thornton UK LLP**  
**September 2016**

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## Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

The draft accounts were prepared to a good standard and there are no significant amendments identified as a result of our audit. We anticipate providing an unqualified opinion on the financial statements.

# Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £1,422k. We have considered whether this level remained appropriate during the course of the audit and have revised our overall materiality to reflect the reduction in the gross revenue expenditure for 2015/16 to £1,268k (being 2% of 2015/16 outturn gross revenue expenditure).

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £63,400. Our assessment of the value of clearly trivial matters has been adjusted to reflect our revised materiality calculation.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate.

Balance/transaction/disclosure	Explanation	Materiality level
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	Any errors in Senior Officers remuneration or in bandings would be deemed to have implications on the users understanding of the financial statements
Disclosure of auditors' remuneration in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	Any errors identified would be deemed to have implications on the users understanding of the financial statements.

# Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (UK&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p><b>The revenue cycle includes fraudulent transactions</b></p> <p>Under ISA (UK&amp;I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited; and</li> <li>• the culture and ethical frameworks of local authorities, including Burnley Borough Council, mean that all forms of fraud are seen as unacceptable.</li> </ul>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p><b>Management over-ride of controls</b></p> <p>Under ISA (UK&amp;I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>Our procedures have included:</p> <ul style="list-style-type: none"> <li>• review of entity controls</li> <li>• testing of journal entries</li> <li>• review of accounting estimates, judgements and decisions made by management</li> <li>• review of any unusual significant transactions</li> </ul>	<p>Our audit work has not identified any evidence of management over-ride of controls.</p> <p>In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

## Audit findings against significant risks (continued)

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
3.	<p><b>The expenditure cycle includes fraudulent expenditure recognition</b></p> <p>Practice Note 10 recommends that auditors of public sector bodies consider the risk of fraudulent financial reporting from the manipulation of expenditure recognition in order to inappropriately match expenditure with available resources</p>	<ul style="list-style-type: none"> <li>Updated our understanding and documentation of the processes and controls in place around the accounting for operating expenses, and carried out a walkthrough of key controls</li> <li>Substantive testing of sample of operating expenses and year end payables / accruals to source documents to ensure valid spend.</li> <li>Searched for unrecorded liabilities by performing cut off testing on post year end payments for April and May.</li> </ul>	<p>Our audit work to date has not identified any evidence of fraudulent expenditure recognition</p>
4.	<p><b>Valuation of surplus assets and investment property</b></p> <p>The CIPFA Code of Practice has implemented IFRS 13 for the 2015/16 financial statements. The Council is required to include surplus assets within property, plant and equipment in its financial statements at fair value, as defined by IFRS13.</p> <p>The basis on which fair value is defined for investment property is also different to that used in previous years.</p> <p>This represents a significant change in the basis for estimation of these balances in the financial statements.</p> <p>There are also extensive disclosure requirements relating to financial assets and liabilities under IFRS 13 which the Council needs to comply with.</p>	<ul style="list-style-type: none"> <li>Reviewed management's processes and assumptions for the calculation of the estimate.</li> <li>Reviewed of the competence, expertise and objectivity of the internal expert used.</li> <li>Reviewed the instructions issued to valuation experts and the scope of their work</li> <li>Held discussions with the valuer about the basis on which the valuation was carried out and challenge of the key assumptions.</li> <li>Reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding.</li> <li>Tested revaluations made during the year to ensure they were input correctly into the Council's asset register</li> <li>Reviewed disclosures made by the Council in its financial statements to ensure they were in accordance with the requirements of the CIPFA Code of Practice and IFRS 13.</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified however we have recommended a small number of disclosures changes regarding investment properties</p>

## Audit findings against significant risks (continued)

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
5.	<p><b>Valuation of pension fund net liability</b></p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.</p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.</p>	<ul style="list-style-type: none"> <li>• Identification and assessment of controls put in place by management to ensure that the pension fund liability is not materially misstated.</li> <li>• Review of the competence, expertise and objectivity of the actuary who carried out your pension fund valuation, including review of the basis on which the valuation is carried out.</li> <li>• Review of the reasonableness of the actuarial assumptions made.</li> <li>• Review of the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

# Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Employee remuneration</b>	Employee remuneration / accruals understated (Remuneration expenses not correct)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• updated our understanding and documentation of processes and key controls</li> <li>• undertaken walkthrough tests to confirm the design and operations of the controls</li> <li>• tested monthly payroll reconciliations to confirm that payroll totals are accurately and completely recorded in the general ledger.</li> <li>• Substantive testing of sample of employee remuneration, to confirm that employees exist, are paid correctly and are recorded in the general ledger together with testing of enhancements and employer contributions.</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified
<b>Operating expenses</b>	Operating expense / Creditors understated or not recorded in the correct period (Operating expenses understated)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• updated our understanding and documentation of the processes and controls in place around the accounting for operating expenses.</li> <li>• carried out walkthrough tests to confirm the design and operation of the controls.</li> <li>• tested control account reconciliations.</li> <li>• carried out substantive testing of sample of operating expenses and year end payables / accruals to source documents to ensure valid spend, and appropriate categorisation within net cost of services and accounted for in the correct period.</li> <li>• searched for unrecorded liabilities by performing cut off testing on post year end payments for April and May..</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified
<b>Welfare expenditure</b>	Welfare benefit expenditure improperly computed	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• updated our understanding and documentation of processes and key controls</li> <li>• undertaken walkthrough of the key controls to assess whether those controls are designed effectively</li> </ul> <p>Following the above work, we concluded there was no 'reasonably possible' risk of material misstatement arising from the welfare benefit payment process.</p> <p>Further work has been undertaken in relation to welfare expenditure and as part of the programme of work for certification of the Council's Housing Benefit Claim, together with testing a sample of Housing Benefit Payments</p>	On the basis of our work to date we have not identified any issues to bring to your attention.

# Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<b>Revenue recognition</b>	<ul style="list-style-type: none"> <li>Revenue from the provision of goods and services is recognised when the amount of revenue can be measured reliably and it is probable the revenue will be received by the Council.</li> <li>Council Tax and Non Domestic Rate income is recognised in the Collection Fund on an accruals basis when it is due from the Council Tax or Non Domestic Rate payer. The Council's share of this income is recognised in the CIES.</li> <li>Government grants are recognised only when there is reasonable assurance that the Council will comply with conditions attached to the payments, and the grants or contributions will be received.</li> </ul>	<ul style="list-style-type: none"> <li>The Council's policy is appropriate and consistent with the relevant accounting framework – the CIPFA Code of Practice on Local Authority Accounting (the CIPFA Code).</li> <li>The main elements of the Council's revenues are predictable and there is minimal judgement required from the Council.</li> <li>The accounting policy for revenue recognition is appropriately disclosed following further enhancement for tax revenues</li> </ul>	●
<b>Judgements and estimates</b>	<p>Key estimates and judgements include</p> <ul style="list-style-type: none"> <li>Useful lives of Property Plant and Equipment (PPE)</li> <li>Revaluation and Impairment of PPE</li> <li>Debt impairment</li> <li>Provision for Business Rate appeals</li> <li>Valuation of Pensions Liability</li> </ul>	<ul style="list-style-type: none"> <li>The Council's accounting policies for key estimates and judgements are appropriate and consistent with the relevant accounting framework – the CIPFA Code of Practice on Local Authority Accounting (the CIPFA Code).</li> <li>The Council's policies and judgements are reasonable and appropriately disclosed. Note 3 sets out critical judgements in accounting policies and Note 4 sets out assumptions made about future and other major sources of estimation uncertainty.</li> <li>The Council has appropriately relied on the work of experts for material estimates of asset revaluations, business rate appeals provisions and pension fund revaluations.</li> </ul>	●

**Assessment**  
● Accounting policy which is inappropriate   
● Accounting policy appropriate but scope for improved application or disclosure   
● Accounting policy appropriate and disclosures sufficient

# Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
<b>Going concern</b>	The Director of Resources (s151 officer) has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continue to adopt the going concern basis in preparing the financial statements.	We have considered the Council's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2015/16 financial statements.	
<b>Other accounting policies</b>	We have reviewed the Council's policies against the requirement of the CIPFA Code and accounting standards	We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. The Council's accounting policies are appropriate and consistent with previous years.	

**Assessment**  
 Accounting policy which is inappropriate   
  Accounting policy appropriate but scope for improved application or disclosure   
  Accounting policy appropriate and disclosures sufficient

## Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Audit and Standards Committee.</li> <li>We have not been made aware of any other incidents in the period.</li> <li>No other issues have been identified during the course of our audit procedures.</li> </ul>
2.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>From the work we carried out, we have not identified any related party transactions which have not been disclosed.</li> </ul>
3.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.</li> </ul>
4.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A standard letter of representation has been requested from the Council.</li> </ul>
5.	<b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We requested from management permission to send confirmation requests to the Council's Bank for bank balance, and to several other institutions for loans and investment confirmation. This permission was granted and the requests were sent.</li> <li>We have not yet received all confirmations for investment deposit requests and will undertake alternative procedures where these confirmations cannot be obtained.</li> </ul>
6.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements</li> </ul>
7.	<b>Matters on which we report by exception</b>	<p>We have not identified any issues we would be required to report by exception in the following areas</p> <ul style="list-style-type: none"> <li>If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit</li> <li>If the information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Group/Council acquired in the course of performing our audit, or otherwise misleading.</li> </ul>

## Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for Employee Remuneration, Operating Expenses and Welfare Benefits as set out on page 13 above

The controls were found to be operating effectively and we have no matters to report to the Audit and Standards Committee.

## Misclassifications and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements (excluding those of minor typographical nature).

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Disclosure - Financial Instruments - Note 10			We have agreed amendments to Note 10 (table 10a) <ul style="list-style-type: none"> <li>to exclude taxation debtors and creditors from financial instrument figures.</li> <li>to identify the Fair Value hierarchy categories</li> </ul>
2 Disclosure - Note 10			We have agreed the amendment of the Fair Value of PWLB loans in Note 10 (table 10f) to reflect the 'new loan' estimate provided by CAPITA, rather than the 'early repayment' estimate provided by PWLB to appropriately reflect Fair Value
3 Disclosure – Note 20 Reconciliation to Subjective analysis			We have agree amendments to the reconciliation to include additional an additional reconciling column for 'Amounts not included in I&E' for both 2014/15 and 2015/16
4 Disclosure- Accounting Policies	-	-	We have recommended additional disclosures for Fair Value Measurement
5 Disclosure- narrative improvements and typographical errors	-	-	We have agreed a small number of other minor amendments to improve the overall presentation and disclosure of the financial statements supporting notes and accounting policies.

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## Section 3: Value for Money

01. Executive summary

02. Audit findings

**03. Value for Money**

04. Fees, non-audit services and independence

05. Communication of audit matters

## Background

We are required by section 21 of the Local Audit and Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') to satisfy ourselves that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2015. AGN 03 identifies one single criterion for auditors to evaluate:

*In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.*

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

## Risk assessment

We carried out an initial risk assessment in February 2016 and identified the following significant risk, which we communicated to you in our Audit Plan dated 26 February 2016:

- **Strategic Partner – Transformation Programme:** *As part of its transformation programme needed to enable the Council to be more flexible in order to meet the challenges of the changing environment, the Council entered into a ten year contract with a strategic commercial partner to deliver both back office and some front line services starting in January 2016. These include: Revenue and Benefits, HR and Payroll, Facilities Management, Environmental, IT and other support services*

We identified risks in respect of specific areas of proper arrangements using the guidance contained in AGN03.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Work to address	Findings and conclusions
<p><b>Strategic Partner – Transformation Programme</b></p> <p>As part of its transformation programme, needed to enable the Council to be more flexible in order to meet the challenges of the changing environment, the Council entered into a ten year contract with a strategic commercial partner to deliver both back office and some front line services starting in January 2016.</p> <p>These include: Revenue and Benefits, HR and Payroll, Facilities Management, Environmental, IT and other support services.</p>	<p>We reviewed the project management and risk management arrangements established by the Council, to establish how the Council was identifying, managing and monitoring these risks.</p>	<p>The Council was aware of the need for robust project and risk management throughout the process of agreeing a strategic partnership arrangement.</p> <p>The Council works primarily with its Strategic Partner through the Strategic Partnership Board, supported by the Partnership Operations Group, and regular service base liaison meetings. Review mechanisms include:</p> <ul style="list-style-type: none"> <li>• transformation programme updates</li> <li>• risk logs and action plan reviews</li> <li>• escalation logs for issues</li> <li>• Monthly KPI reports</li> </ul> <p>Following the successful transition to the Strategic partner, a new payroll system has been successfully implemented, going live in July 2016, following extensive parallel running and sign off of detailed Key Performance Indicators (KPIs).</p> <p>There is an effective culture of challenge, but genuine partnership working between the Council and the Strategic Partner, recognising the Council's need for containing costs and the Strategic Partner's business strategy, achieving a win/win solution wherever possible.</p> <p>KPIs focus on outputs and also 'quality inputs' (eg maximum level of post vacancies),</p> <p>The Transformation Programme is has already delivered improvements in KPIs from previous services, and broader benefits are being sought through supporting the expansion of the Strategic Partner's role, both locally and nationally with other Local Authorities and organisations.</p> <p>The key challenge for the Council looking forward will be to ensure that the maximum intended benefits of all the individual projects are realised and captured as the programme continues</p> <p><b>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements for working effectively with third parties to deliver strategic priorities, managing risks effectively and maintaining a sound system of internal control.</b></p>

### **Significant qualitative aspects**

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements however we also highlight here our findings from other key considerations used to inform our VFM conclusion.

#### **Financial outturn 2015/16**

The Council manages budgets well and has a good track record of achieving its savings plans. In 2015/16 the Council delivered an underspend of £605k which has been transferred to Earmarked Reserves.

The Council's General Fund balance remains the same as in previous years at £1,379k and earmarked reserves continue to be held at a reasonable, though not excessive level of £6,973k

We do not have any significant concerns arising from our review of the 2015/16 budget outturn over the Council's arrangements for delivering economy, efficiency and effectiveness.

#### **Financial Planning for 2016/17 and beyond**

The Council has set a balanced revenue budget for 2016/17 together with budget plans for 2017/18, within a Medium Term Financial Strategy to 2019/20.

The MTFs identifies a cumulative funding gap of £4m by 2020 but the Council is committed to continue its service transformation agenda using £960k of strategic earmarked 'Transformation' and 'Growth' reserves to invest in developments. The Council's 'commercial strategy' sets the framework for securing income and charges and gaining savings in procurement costs and partnership working.

### **Overall conclusion**

Based on the work we performed to address the significant risks, we concluded that the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources. The text of our report, which confirms this can be found at Appendix A

### **Significant difficulties in undertaking our work**

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

### **Significant matters discussed with management**

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

### **Any other matters**

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

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## Section 4: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

**04. Fees, non audit services and independence**

05. Communication of audit matters

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

### Fees

	Per Audit Plan £	Actual £
Council audit	50,567	50,567
Grant certification – Housing Benefits*	6,732*	TBA
<b>Total audit fees (excluding VAT)</b>	<b>57,299</b>	

Indicative fee\* - based on no additional testing identified as being required for 2015/16 claim.

### Grant certification

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited.

Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

### Fees for other services

Service	Fees £
<b>2016 Ethics and Governance workshops</b>	<b>6,776</b>

### Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

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## Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

# Communication to those charged with governance

International Standards on Auditing ISA (UK&I) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

## Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council 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 Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

# Appendices

# Appendix A: Audit opinion (DRAFT)

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

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BURNLEY BOROUGH COUNCIL**

We have audited the financial statements of Burnley Borough Council (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund and the related notes. 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 2015/16.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the 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.

### **Respective responsibilities of the Director of Resources (Chief Financial Officer) and auditor**

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Director of 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 2015/16, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Resources; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Narrative Report and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- present a true and fair view of the financial position of the Authority as at 31 March 2016 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

### **Opinion on other matters**

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement is consistent with the audited financial statements.

### **Matters on which we are required to report by exception**

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- we issue a report in the public interest under section 24 of the Act; or
- we make a written recommendation to the Authority under section 24 of the Act; or
- we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.

**Conclusion on the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources**

**Respective responsibilities of the Authority and auditor**

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

We are required under Section 20(1)(c) of the Act 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.

**Scope of the review of the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources**

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code in satisfying ourselves whether the Authority put in place proper arrangements to secure value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

We planned our work in accordance with the Code. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources.

**Conclusion**

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, we are satisfied that in all significant respects the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

**Certificate**

We certify that we have completed the audit of the accounts of the Authority in accordance with the requirements of the Act and the Code.

Karen Murray  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

4 Hardman Square  
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Manchester  
M3 3EB

September 2016



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