



# Annual Audit Letter

*Year ending 31 March 2018*

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**Burnley Borough Council**

23 August 2018



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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 Burnley Borough Council (the Council) for the year ended 31 March 2018.

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 Standards Committee as those charged with governance in our Audit Findings Report on 19 July 2018.

## Our work

<b>Materiality</b>	We determined materiality for the audit of the Council's financial statements to be £1,286,000, which is 2% of the Council's gross revenue expenditure.
<b>Financial Statements opinion</b>	We gave an unqualified opinion on the Council's financial statements on 23 July 2018.
<b>Whole of Government Accounts (WGA)</b>	We confirmed to the NAO that no work is required as the Council does not exceed the NAO's threshold specified for Income, Expenditure, Assets or Liabilities.
<b>Use of statutory powers</b>	We did not identify any matters which required us to exercise our additional statutory powers.
<b>Value for Money arrangements</b>	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 19 July 2018.
<b>Certification of Grants</b>	We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2018. We will report the results of this work to the Audit and Standards Committee in our Annual Certification Letter.
<b>Certificate</b>	We certify that we have completed the audit of the accounts of Burnley Borough Council in accordance with the requirements of the Code of Audit Practice.

## 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.

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# Executive Summary

## **Working with the Council**

In previous years we have worked with Council staff in preparing to meet the new statutory accounts deadline of 31 May (draft) and 31 July (audited) for 2017/18. We were pleased to receive the draft financial statements on 17 May 2018.

Good comprehensive working papers were available in advance of the start of our audit visit on 1 June 2018. This demonstrates the Council's commitment to good quality, timely financial statements.

Finance staff responded promptly and knowledgeably to our questions and queries during the audit, enabling us to deliver our audit opinion on 23 July 2018.

During the year we also:

- Shared our insight – we provided regular audit committee updates covering best practice. We also shared our thought leadership reports
- Provided training – we provided your teams with training on financial accounts and annual reporting.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

**Grant Thornton UK LLP**  
**August 2018**

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# Audit of the Accounts

## 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 accounts to be £1,286,000, which is 2% of the Council's 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 £64,300, above which we reported errors to the Audit and Standards 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 Statement of Accounts, the narrative report and annual governance statement published alongside the Statement of Accounts to check they are consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts 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 is 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 Accounts

## 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><b>Management override of controls</b></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.</p> <p>The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We identified management override of controls as a risk requiring special audit consideration.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> <li>gained an understanding of accounting estimates, judgements and decisions made by management</li> <li>obtained a full listing of journal entries, and identified and tested unusual journal entries for appropriateness</li> <li>evaluated the rationale for any changes in accounting policies or significant unusual transactions.</li> </ul>	<p>Our work did not identify any issues relating to the management override of controls that we needed to bring to your attention</p>
<p><b>Valuation of property, plant and equipment (PPE)</b></p> <p>The Council revalues its land and buildings to ensure that the carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration</p> <p>The assets are revalued according to the 5 year rolling programme following the full valuation of all land and buildings at 31 March 2015.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> <li>reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work</li> <li>considered the competence, expertise and objectivity of any management experts used.</li> <li>reviewed the basis on which the valuation is carried out and challenged the key assumptions.</li> <li>reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding.</li> <li>tested revaluations made during the year to ensure they are input correctly into the Council's asset register</li> <li>evaluated the assumptions made by management for those assets not revalued during the year and considered how management has satisfied themselves that these are not materially different to current value.</li> </ul>	<p>Our work did not identify any issues relating to the valuation of PPE that we need to bring to your attention.</p>

# Audit of the Accounts

## Significant Audit Risks (continued)

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<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 a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"><li>• Identified and assessed the controls put in place by management to ensure that the pension fund liability is not materially misstated.</li><li>• obtained assurance on the controls established by the Lancashire County Pension Fund from the pension fund auditor</li><li>• evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuation</li><li>• gained an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made, including the use of an audit expert.</li><li>• reviewed the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary.</li></ul>	<p>Our work did not identify any issues relating to the valuation and reporting of the pension fund net liability that we needed to bring to your attention</p>

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# Audit of the Accounts

## **Audit opinion**

We gave an unqualified opinion on the Council's financial statements on 23 July 2018, in advance of the national deadline.

## **Preparation of the accounts**

The Council presented us with draft accounts on 17 May 2018, a number of weeks in advance of the national deadline, and provided a good set of working papers to support them in advance of the start of our audit visit on 1 June 2018. The finance team responded promptly and efficiently to our queries during the course of the audit.

## **Issues arising from the audit of the accounts**

We reported the key issues from our audit to the Council's Audit and Standards Committee on 19 July 2018.

## **Annual Governance Statement and Narrative Report**

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

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

## **Certificate of closure of the audit**

We are also required to certify that we have completed the audit of the accounts of Burnley Borough Council in accordance with the requirements of the Code of Audit Practice.

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# 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 key risks where we concentrated our work.

The key risks we identified and the work we performed are set out overleaf.

## **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 2018.

# Value for Money conclusion

## Key Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Financial sustainability</b></p> <p>Whilst the Council had been successful in recent years in reducing its net expenditure, the Council still needed to find savings of around £5m over the 4 year period 2018/19 - 2021/22, which is equivalent to around 33% of the Council's net budget</p> <p>This risk relates to the Council's arrangements for sustainable resource deployment.</p>	<p>To address this risk to our vfm conclusion we:</p> <ul style="list-style-type: none"> <li>reviewed the medium term financial strategy (MTFS) to confirm that it reflects an accurate assessment of the Council's financial position and consideration of the progress made by officers in developing plans to address the financial gap</li> <li>reviewed the Council's organisational development strategy to ensure that strategic prioritisation and service transformation are recognised within the strategic plan</li> <li>reviewed evidence that the Council has taken sufficient steps to ensure it has a realistic expectation that the savings required can be achieved.</li> <li>reviewed the outturn position for 2017/18.</li> </ul>	<p>The Council set a balanced budget for 2018/19 in February 2018, determining a net revenue budget of £15,090,000. The budget appropriately recognised increases in spending pressure such as pay and activity growth pressures, as well as a realistic estimate of revenue increases from business rates and Council Tax. Further budget savings of £179,000 were identified as being required and allocated across operational budgets.</p> <p>The Council also updated the MTFS for the period 2019/20 to 2021/22 incorporating key assumptions such as loss of New Homes Grant, ongoing pay growth, and retaining Council Tax increases at 1.99%. The cumulative budget gap over the 3 year period has been identified as £3.2 million or 21% of the Net Revenue Budget for 2018/19. To date the Council has approved around £355,000 of savings to be made over the first 2 years of the MTFS, with work ongoing to address the cumulative gap.</p> <p>The Medium Term Financial Strategy (MTFS) clearly sets out the assumptions that have been made about future levels of income and expenditure, identifying any risks attached to them and demonstrating an accurate assessment of the Council's financial position.</p> <p>The Council approved its Capital Budget for 2018/19 in February 2018 as £10,141,000. However, this has now been revised to £11,451,000 following the re-profiling of slippage from the 2017/18 capital programme.</p> <p>The Council is continuing to work with its strategic partner Liberata to obtain efficiencies and improvements through the service transformation of Revenues and Benefits. The performance of these services has remained high throughout the transitional phase. Developments introduced in 2017/18 include:</p> <ul style="list-style-type: none"> <li>increased service automation for citizens through the development and imminent launch of 'Citizens Access' with support for vulnerable customers;</li> <li>improving 'self service' functionality for both citizens and businesses;</li> <li>working towards more effective customer contact, reducing the need for unnecessary repeat contacts.</li> </ul> <p>Developments are generally on track to deliver the savings and benefits anticipated from the strategic partnership which is a key part of the Council's organisational development plan. The Council continues to focus on a more 'commercial' way of delivering services with its strategic partner as part of its strategic plan.</p> <p>The Council has again delivered its planned outturn position for 2017/18 with a budget surplus of £92,000 against its Net Revenue Budget of £14,596,000, with a reduction of £1,254,000 in Earmarked Reserves to retain a General Fund Balance of £1,379,000 consistent with previous years.</p> <p>The Council has a strong track record of understanding its financial position and being able to make tough decisions in terms of actions needed to deliver outturns and achieve a sustainable financial position in the medium term</p> <p>We concluded that the Council had effective arrangements in place for sustainable resource deployment</p>

# A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and the provision of non-audit services.

## Reports issued

Report	Date issued
Audit Plan	23 February 2018
Audit Findings Report	19 July 2018
Annual Audit Letter	23 August 2018

## Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory Council audit	50,567	50,567	50,567
Housing Benefit Grant Certification	6,732	*TBC	9,675
<b>Total fees</b>	<b>57,299</b>	<b>TBC</b>	<b>60,242</b>

- Housing Benefit Grant Certification work is still underway. The final fee will be confirmed in due course.

The planned fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

## Fees for non-audit services

Service	Fees £
<b>Audit related services</b>	
- RGF Grant – Aerospace scheme	2,950
<b>Non-Audit related services</b>	
- None	Nil

## 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 above 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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