

The Annual Audit Letter for Burnley Borough Council

Year ended 31 March 2016

19 October 2016

Karen Murray

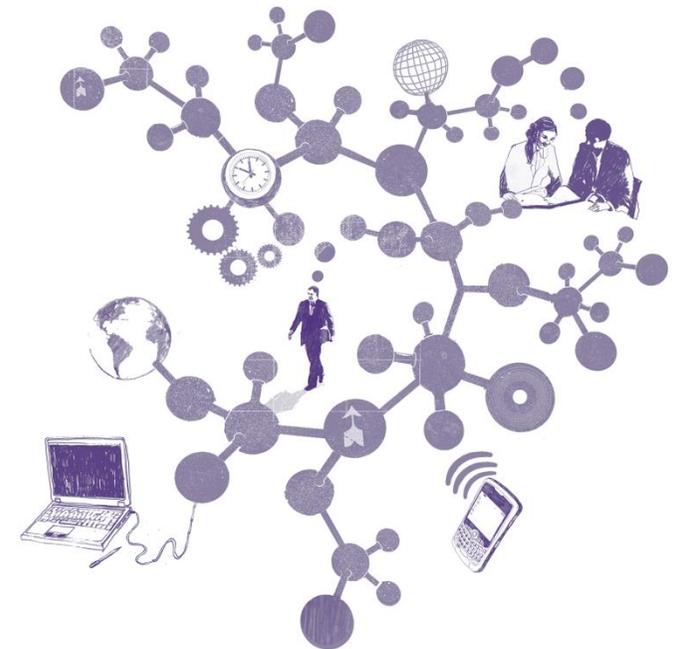
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Contents

Section	Page
1. Executive summary	3
2. Audit of the accounts	5
3. Value for Money conclusion	10
4. Working with the Council	12

Appendices

A Reports issued and fees

Executive summary

Purpose of this letter

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 2016.

This Letter is intended to provide a commentary on the results of our work to the Council and its 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 (the Code) 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 21 September 2016.

Our 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 and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 23 September 2016.

The audit matters related mainly to classification and disclosure matters in the notes to the financial statements. Our audit did not identify any adjustments affecting the Council's expenditure or level of useable reserves.

Use of additional powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Local Government Audit and Accountability Act 2014

Value for money conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016. We reflected this in our audit opinion on 23 September 2016.

Certificate

We certified that we had completed the audit of the accounts of Burnley Borough Council in accordance with the requirements of the Code on 23 September..

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. Our work on this claim is not yet complete and will be finalised by 30 November 2016. We will report the results of this work to the Council's Audit and Standards Committee in our Annual Certification Letter.

Working with the Council

During the year we have met regularly with the Chief Executive and Director of Resources. We have continued to share the firm's national publications and provide thought leadership in emerging issues that impact on the public sector.

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
October 2016

Audit of the accounts

Our audit approach

Materiality

In our audit of the Council's accounts, 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 our audit of the Council's accounts to be £1,268,000 which is 2% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality where appropriate for areas such as auditor's remuneration and senior officer remuneration.

We set a lower threshold of £63,400, 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 enough 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 Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- 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 narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts on which we give our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe 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 accounts

These are the 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
<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. 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 determined that the risk of fraud arising from revenue recognition could be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Burnley Borough Council, mean that all forms of fraud are seen as unacceptable <p>We did not identify any issues to report.</p>
<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>Our audit work included:</p> <ul style="list-style-type: none"> • review of entity controls • testing of journal entries • review of accounting estimates, judgements and decisions made by management • review of any unusual significant transactions <p>We did not identify any issues to report.</p>
<p>The expenditure cycle includes fraudulent expenditure recognition</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>	<p>We carried out the following procedures:</p> <ul style="list-style-type: none"> • 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 to ensure they operated as we expected • substantive testing of a sample of operating expenses and year end payables / accruals to source documents to ensure valid spend. • a search for unrecorded liabilities by performing cut off testing on post year end payments for April and May <p>We did not identify any issues to report.</p>

Audit of the accounts

These are the 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
<p>Valuation of surplus assets and investment property and fair value disclosures under IFRS 13</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>Our audit work included:</p> <ul style="list-style-type: none"> • reviewing of management's processes and assumptions for the calculation of the estimate; • reviewing the competence, expertise and objectivity of management's valuer; • reviewing the instructions issued to the valuer and the scope of their work; • testing of revaluations made during the year to ensure they were input correctly into the Council's asset register; and • reviewing the 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. <p>We did not identify any significant issues to report. However we recommended a small number of disclosures changes regarding investment properties.</p>
<p>Valuation of pension fund net liability</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>Our audit work included:</p> <ul style="list-style-type: none"> • Identifying and assessing the controls in place to ensure the pension fund liability was not materially misstated • assessing the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation; • gaining 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; and • reviewing the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. <p>We did not identify any issues to report.</p>

Audit of the accounts

These are the 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
<p>Employee remuneration</p> <p>This is a significant proportion of your expenditure. We test to ensure this has been paid and recognised in the accounts correctly.</p>	<p>Our audit procedures included::</p> <ul style="list-style-type: none"> • updating our understanding and documentation of processes and key controls • performing walkthrough tests to confirm the design and operations of the controls • testing monthly payroll reconciliations to confirm that payroll totals are accurately and completely recorded in the general ledger. • substantive testing of a sample of employee remuneration, payments to confirm that employees exist, were paid correctly and recorded in the general ledger , including testing of enhancements and employer contributions. <p>We did not identify any issues to report.</p>
<p>Operating expenses</p> <p>This is a significant proportion of your expenditure. We test to ensure this has been paid and recognised in the accounts correctly.</p>	<p>Our audit procedures included::</p> <ul style="list-style-type: none"> • updating our understanding and documentation of the processes and controls in place for payment and accounting for operating expenses. • performing walkthrough tests to confirm the design and operation of the controls. • testing of control account reconciliations. • substantive testing of a sample of operating expenses and year end payables / accruals to source documents to ensure valid spend, appropriate categorisation within net cost of services and confirm accounted for in the correct period. • A search for unrecorded liabilities by performing cut off testing on post year end payments for April and May.. <p>We did not identify any issues to report.</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 23 September 2016, in advance of the 30 September 2016 national deadline.

The Council made the accounts available for audit in line with the agreed timetable, and provided a good set of working papers to support them. The finance team responded knowledgeably and promptly to our queries during the course of the audit.

We reported the key issues from our audit of the accounts of the Council to the Council's Audit and Standards Committee on 21 September 2016.

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

- the draft accounts were of a good standard and contained no material errors;
- the audit matters related mainly to classification and disclosure matters in the notes to the financial statements. Our audit did not identify any adjustments affecting the Council's expenditure or level of useable reserves; and
- due to the good standard of the draft accounts and supporting working papers it was not necessary to raise any actions or recommendations.

Annual Governance Statement and Narrative Report

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

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council.

Other statutory duties

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We have no matters to report.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2015 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 risk we identified and the work we performed is set out in the table overleaf.

Overall VfM 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 2016.

Value for Money conclusion

VFM Risks

Significant risk	Work to address	Findings and conclusions
<p>Strategic Partner – Transformation Programme</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"> • transformation programme updates • risk logs and action plan reviews • escalation logs for issues • Monthly KPI reports <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>We concluded that 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.</p>

Working with the Council

Our work with you in 2015/16

We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship. Together we have delivered some great outcomes.

An efficient audit – we delivered the accounts audit during a 4 week window and issued our report a week before the deadline and in line with the timescale we agreed with you. Our audit team are knowledgeable and experienced in your financial accounts and systems. Our continuing relationship supports your finance team in preparing the financial statements promptly and efficiently, releasing them for other important work.

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 updates to the Audit and Standards Committee covering best practice. Areas we covered included:

- Innovation in public financial management,
- Knowing the Ropes – Audit Committee; Effectiveness Review
- Making devolution work
- Re-forging local government.

We have also shared with you our insights on advanced closure of local authority accounts, in our publication "Transforming the financial reporting of local authority accounts" and will continue to provide you with our insights as you bring forward your production of your year-end accounts.

Thought leadership – We have shared with you our publication on Building a successful joint venture and will continue to support you as you consider greater use of alternative delivery models for your services.

Providing training – We invite your teams to attend training on financial accounts and annual reporting at our annual Chief Accountant's Workshop. We have also provided 'Ethics and Governance' workshops to managers to further improve awareness in these important areas.

Providing information – Alongside our national publications we also share data analytics information. We support these offerings with the opportunity to subscribe to our extensive support databases:

- Place Analytics - highlighting health and social conditions and lifestyle needs in your area
- CFO Insights, our online analysis tool providing you with access to insight on the financial performance, socio-economy context and service outcomes of councils across the country.

We will continue to liaise closely with the Council's senior finance team during 2016/17 on important accounting developments and the early accounts timetable, with timely feedback on any emerging issues.

Appendix A: Reports issued and fees

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

Fees –

	Planned £	Actual fees £	2014/15 fees £
Statutory audit of Council	50,567	50,567	67,423
Housing Benefit Grant Certification	6,732	*6,732	12,900
Total fees (excluding VAT)	57,299	57,299	80,323

Fees for other services

Service	Fees £
2016 Ethics and Governance workshops	6,776

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

Reports issued

Report	Date issued
Audit Plan	March 2016
Audit Findings Report	September 2016
Annual Audit Letter	October 2016



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