

# AUDIT AND STANDARDS COMMITTEE

Thursday, 23rd September, 2021  
6.30 pm



**Burnley**  
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# AUDIT AND STANDARDS COMMITTEE

## COUNCIL CHAMBER

**Thursday, 23rd September, 2021 at 6.30 pm**

**Members are reminded that if they have detailed questions on individual reports, they are advised to contact the report authors in advance of the meeting.**

**Members of the public may ask a question, make a statement, or present a petition relating to any agenda item or any matter falling within the remit of the committee.**

**Notice in writing of the subject matter must be given to the Head of Legal & Democracy by 5.00pm on the day before the meeting. Forms can be obtained for this purpose from the reception desk at Burnley Town Hall or the Contact Centre, Parker Lane, Burnley. Forms are also available on the Council's website <https://bit.ly/2BXW7d2>**

**Whilst we have returned to holding meetings in person we have limited space for members of the public to attend due to Public Health guidance. Should you wish to attend you are advised to contact [democracy@burnley.gov.uk](mailto:democracy@burnley.gov.uk) in advance of the meeting.**

## **AGENDA**

### **1) Apologies**

To receive any apologies for absence.

### **2) Minutes**

**5 - 8**

To approve as a correct record the minutes of the previous meeting.

### **3) Additional Items of Business**

To determine whether there are any additional items of business which, by reason of special circumstances, the Chair decides should be considered as a matter of urgency.

### **4) Declarations of Interest**

To receive any declarations of interest from Members relating to any item on the agenda, in accordance with the provisions of the Code of Conduct.

### **5) Exclusion of the Public**

To determine during which items, if any, the public are to be excluded from the meeting.

**6) Public Question Time**

To consider questions, statements or petitions from Members of the Public.

**PUBLIC ITEMS****7) Internal Audit Progress Report**

9 - 14

To consider the internal audit progress report for the period 1<sup>st</sup> April to 30<sup>th</sup> June 2021..

**8) Internal Audit Plan 2021/22**

15 - 26

To consider the internal audit plan for 2021/22.

**9) External Audit Plan 2020/21**

27 - 50

**10) Work Programme**

51 - 52

To consider the Work Programme for the current year.

**MEMBERSHIP OF COMMITTEE****Councillors**

Councillor Lord Wajid Khan of Burnley (Chair)  
Councillor Howard Baker (Vice-Chair)  
Councillor Charlie Briggs  
Councillor Paul Campbell  
Councillor Phil Chamberlain

Councillor Tom Commis  
Councillor Beatrice Foster  
Councillor Asif Raja  
Councillor Andy Wight

**Co-opted Members**

Councillor Kathryn Haworth, Habergham Eaves Parish Council  
Councillor Gill Smith, Cliviger Parish Council  
Stuart Arnfield, Burnley College

**External Auditor**

Georgia Jones, Grant Thornton  
Helen Stevenson, Grant Thornton-External Auditor

Published: Wednesday, 15 September 2021

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## AUDIT AND STANDARDS COMMITTEE

BURNLEY TOWN HALL

**Wednesday, 7th July, 2021 at 6.30 pm**

### PRESENT

#### MEMBERS

Councillor Lord Wajid Khan of Burnley, In the Chair.

Councillors H Baker (Vice-Chair), P Campbell, P Chamberlain, T Commis, B Foster and A Wight

#### OFFICERS

Howard Hamilton-Smith	– Head of Finance and Property
Ian Evenett	– Internal Audit Manager
Salma Hussain	– Internal Auditor
Eric Dickinson	– Democracy Officer

#### CO-OPTED MEMBERS

Parish Councillor  
Kathryn Haworth  
Stuart Arnfield-  
Burnley College

#### EXTERNAL AUDITORS

Georgia Jones – Grant Thornton-External Auditors

### 1. Apologies

Apologies for absence were received from Councillor Charlie Briggs and Councillor Asif Raja.

### 2. Minutes

The Minute of the previous meeting held on 24<sup>th</sup> March 2021 were agreed as a correct record.

### 3. External Auditors Progress Report

Georgia Jones, Engagement Lead from Grant Thornton, presented an External Auditors Progress Report.

She indicated that initial planning for the 2020/21 was undertaken in March 2021 and that the interim audit was scheduled for July 2021. She also indicated that work would begin on draft financial statements at the end of September 2021 running through to November 2021.

She stated that a more detailed Audit Plan would be brought to the next meeting on 23<sup>rd</sup> September 2021, and that an Audit Findings Report and an opinion on the Statement of Accounts would be aimed for by the end of November 2021.

She highlighted areas relating to Value for Money, Certification of claims and returns, and Audit Fees and that the Auditor's Annual Report was due by January 2022.

The following issues were raised by the Members of the Committee and responded to;

-the timing of the Audit Plan for 2020/21 was acknowledged as being later than usual due to the Covid pandemic as it would usually come to Committee in March or July, however it could be circulated before it was brought formally to the next meeting

Georgia Jones also reported on the supplementary agenda which set out correspondence with the Head of Finance and Property regarding understanding of the Council's accounting systems including all the key accounting estimates that would be included in the Council's financial statements.

In addition two-way communication on risk assessment between the Auditor and the Committee/Management was reported on to allow the auditor to gain understanding of management processes and the Council's oversight regarding General Enquiries of Management, Fraud, Law and Regulations, Related Parties and Accounting estimates.

#### IT WAS AGREED

That the report be noted.

#### **4. Internal Audit Opinion 2020-21**

Howard Hamilton-Smith reported as Chief Audit Executive on the opinion on the Internal Controls of the Council for the 2020/21 financial year.

He indicated that the overall opinion was that the controls of the Council continued to operate effectively despite the Covid pandemic. He also reported that any weaknesses have been addressed as part of an agreed action plan which is monitored, with further assurances provided by management regarding implementation.

He also provided a summary of audit reports issued during 2020/21, and a progress report 2021.

The following issues were raised by Members of the Committee and responded to;

- Regarding how many grants were applied for and issued, it was stated that 43.5Million Pounds had been provided in business grants across 12 or 13 grant funding schemes based on about 1400 applications. It was also stated that some mandatory scheme monies were returned as set out by the Government, and that regarding discretionary schemes the release of the 3<sup>rd</sup> of 3 tranches of funding was being reported to the 14<sup>th</sup> July 2021 Executive for approval.

-Regarding the continuation of big projects such as Pioneer Place, it was stated that this continued in line with financial models within agreed parameters, and that regarding Vision Park this was now fully let

**IT WAS AGREED**

That the opinion be noted.

## **5. Annual Governance Statement 2020-21**

Salma Hussain reported on the Annual Governance Statement (AGS) 2020/21 for approval by the Committee under its governance terms of reference.

She stated that the AGS had been produced in accordance with proper practice using CIPFA and SOLACE guidance.

She also stated that Assurance Statements had been signed by Senior Officers, that Executive Members and the Chair of Scrutiny had been requested to submit relevant Assurance Statement to the Leader, and that Liberata had been requested to provide a relevant Certificate of Assurance.

She indicated that the AGS had been signed by both the Leader of the Council and the Chief Executive as the final assurance to the public, and that the AGS would be presented in due course alongside the externally audited Statement of Accounts 2020/21.

The following issue was raised by Members of the Committee and responded to;  
-the importance of the AGS was set out, as it was a statutory requirement of the Council.

**IT WAS AGREED**

That the Annual Governance Statement 2020/21 be approved.

## **6. Strategic Risk Register 2021-22**

Ian Evenett reported on a Strategic Risk Register (SRR) 2021 which he stated was similar to that reported to the previous meeting in March 2021 other than the risk of failure due to the pandemic had now reduced.

Members raised the following issues which were responded to;

-the Council's future resilience in addition to a pandemic had been tested as part of the Lancashire Resilience Forum and this had included some preparation before Covid. He stated that the answer was positive although with room for improvement and lessons to be learnt, especially around getting the right message to the right people and improving relative vaccination and testing rates.

-areas of high risk due to perceived high likelihood and high impact were responded to in the Council's Strategic Plan to counteract the perceived threat such as the financial risk, and that they were continuously being monitored by Management Team and Members e.g. this SRR being reported to the 14 July Executive.

**IT WAS AGREED**

(1) That the Strategic Risk Register be reviewed and updated; and

(2) That the Strategic Risk Register be recommended to the Executive.

## **7. Work Programme 2021-22**

Eric Dickinson reported on the Committee's proposed Work Programme 2021/22.

IT WAS AGREED

That the Work Programme 2021/22 be approved.

## Internal Audit Progress Report

### REPORT TO AUDIT AND STANDARDS COMMITTEE



DATE	23/09/2021
PORTFOLIO	Resources and Performance Management
REPORT AUTHOR	Salma Hussain
TEL NO	01282 425011 Ext 3152
EMAIL	salmahussain@burnley.gov.uk

#### PURPOSE

1. To inform members of the work undertaken by Internal Audit for the period 1st April to 30th June 2021.

#### RECOMMENDATION

2. The Committee considers the progress report and comments on its contents.

#### REASONS FOR RECOMMENDATION

3. Members can monitor the performance of the Internal Audit Section.

#### SUMMARY OF KEY POINTS

##### Audit Reports

4. From 1st April to 30th June 2020 there have been 2 audit reports produced and 3 incident reports. Details of audits are given in **Appendix 1**.

##### Performance Statistics

5. The comparison between actual and planned audits can be seen in **Appendix 2**. A number of audits have started, and to date have been completed but due to timing will form part of later quarter statistics to be reported.
6. Performance indicators for Internal Audit are reported in the Finance balanced scorecard. The service currently reports the number of audit reports produced – 6 against an annual target of 22 (five for the Council and one for Burnley Leisure) and the percentage of high-priority actions from audit action plans implemented which was 100% and has a target of 100%.

### **Other Activity**

7. The Internal Audit Plan 2021/22 is being presented to the Committee at this meeting.
8. The audit team have been supporting the Council's business continuity response to the Coronavirus pandemic:-
  - assisting with Business Support Grants and processing related suspected fraud reports
  - supporting the Council's Business Transition Group,
  - supporting the Council's Covid responses.
9. The Annual Governance Statement was produced to support the 2020/21 Statement of Accounts. And assistance provided in the preparation of the Statement of Accounts.
10. Internal Audit dealt with 3 incidents relating to alleged COVID grant fraud.
11. The service provided an Annual Internal Audit Opinion to Burnley Leisure, as per the Service Level Agreement and has carried out follow up reviews on previously completed audits to review completed actions and provided advice and assistance to various services. The vacant Auditors position has now been filled and the officer commenced employment in July 2021.

### **FINANCIAL IMPLICATIONS AND BUDGET PROVISION**

12. None

### **POLICY IMPLICATIONS**

13. None

### **DETAILS OF CONSULTATION**

14. None

### **BACKGROUND PAPERS**

15. None

### **FURTHER INFORMATION**

**PLEASE CONTACT:**

**Salma Hussain (Internal Auditor) Ext 3152**

**ALSO:**

**Ian Evenett (Internal Audit Manager) Ext 7175**

<b>Summary of Audit reports Issued Quarter 1 2021/22</b>						
<b>Audit</b>	<b>Service</b>	<b>Audit Purpose</b>	<b>Audit Opinion</b>	<b>Key Actions Agreed</b>	<b>Implementation Detail</b>	<b>Score</b>
Related Party Interests	Finance	To provide a related party disclosure statement for the Final Accounts 202/21.	The system design is effective and sound controls are in place to mitigate the risk of error/ misuse.	None	None	N/A
Elections	Legal & Democratic Services	To audit the staffing payments for the elections in May 2021.	No issues to report	None	None	1

**Audit Score Defined**

Score	Opinion	Definition of Opinion
1	Comprehensive Assurance	There is a sound system of controls designed to meet objectives and controls are consistently applied in all the areas reviewed.
2	Reasonable Assurance	There is a good system of controls. However, there are minor weaknesses in the design or consistency of application that may put the achievement of some objectives at risk in the areas reviewed.
3	Limited Assurance	Key controls exist to help achieve system objectives and manage principle risks. However, weaknesses in design or inconsistent application of controls are such that put the achievement of system objectives at risk in the areas reviewed.
4	No Assurance	The absence of basic key controls or the inconsistent application of key controls is so severe that the audit area is open to abuse or error.
N/A	Not Applicable	The audit review undertaken did not have as its primary objective an assessment of system, its controls and their effectiveness.

## Appendix 2

Audit	Started	Report Issued	Audit Score
<b>Corporate</b>			
Annual Governance Statement	✓		
NFI	✓		
Charities			
Debts Write-Off	✓		
Fraud Risk Review			
Partnerships			
Strategic Partner Performance Indicators			
Safeguarding			
<b>Finance &amp; Property</b>			
Benefits Calculation Check			
Payments of Benefits			
Treasury Management	✓		
Payment of Creditors			
Council Tax	✓		
Payroll			
Related Party Interests	✓	✓	N/A
Utilities	✓		
<b>Information Governance</b>			
Information Governance			
<b>Housing &amp; Development Control</b>			
Empty Homes Initiatives	✓		
<b>Legal &amp; Democratic Services</b>			
Electoral Registrations	✓		
Elections	✓	✓	1
<b>Economy &amp; Growth</b>			
Vision Park Project			
<b>External Clients</b>			
Burnley Leisure – Service Level Agreement	✓		

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## Internal Audit Plan 2021 22

Report to Audit and Standards Committee	
 <b>Burnley</b> .gov.uk	<b>DATE</b> 23/09/2021
	<b>PORTFOLIO</b> Resources and Performance Management
	<b>REPORT AUTHOR</b> Ian Evenett
	<b>TEL NO</b> 01282 477175
	<b>EMAIL</b> ievenett@burnley.gov.uk

### PURPOSE

1. To inform on the audit planning process and seek approval from members on the proposed Internal Audit plan for 2021-22 and the Internal Audit Charter and Strategy 2021.

### RECOMMENDATION

2. Members consider the report and provides comment on any changes for approval of the proposed Internal Audit Plan and Internal Audit Charter and Strategy.

### REASONS FOR RECOMMENDATION

3. Audit and Standards Committee are 'the Board' in respect of the Public Sector Internal Audit Standards (PSIAS). As part of this role, they should consider approval of a risk-based internal audit plan.
4. To ensure that the service is delivered effectively in accordance with proper practices.
5. To ensure delivery of an audit opinion for 2021-22.

### SUMMARY OF KEY POINTS

#### Internal Audit Plan 2021/22 (Appendix 1)

6. Audit is required to have a risk-based audit plan for a period of no longer than one year. We have consulted management to establish the auditable activities for 2021/22. Members of the audit team liaised with each head of service to discuss key areas of risk and potential audits within their area of activity.
7. The audit universe, which contains all elements identified for audit, was subsequently

<b>ITEM NO</b>	[AgendaItem]
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updated with the new risk scores following these discussions. The risk scoring matrix contains a number of factors such as size, volume and value of transactions, levels of control and time since the last audit.

8. The proposed Internal Audit Plan 2021/22 is based on the result of this risk assessment exercise, whilst also maintaining audit coverage across all services of the Council. This does not mean that audit has been operating without a plan until now. The audits that have been delivered so far are those that were carried over from the 2020/21 plan.
9. There has continued to be some support provided by the service to the Covid response and an audit Vacancy until July 21, has meant that there was uncertainty to the extent of available resources for the delivery of the Audit Plan.

### **Internal Audit Charter and Strategy 2021**

10. There have been no updates to the Charter and Strategy since the release of Chartered Institute of Public Finance and Accountancy's (CIPFA) PSIAS Local Government Application Note in 2019.
11. It is expected that reference is made to the Seven Standards of Public Life - honesty, integrity, accountability, selflessness, objectivity, openness and leadership, in a future update.
12. The Internal Audit Charter is required under the PSIAS and CIPFA's Local Government Application Note. These two documents represent 'proper practice' for Internal Audit in local government to comply with the Accounts and Audit Regulations 2015.

### **FINANCIAL IMPLICATIONS AND BUDGET PROVISION**

13. None

### **POLICY IMPLICATIONS**

14. None

<b>FURTHER INFORMATION:</b>  <b>PLEASE CONTACT:</b>  <b>ALSO:</b>	<b>Ian Evenett (Internal Audit Manager) Ext 7175</b> <b>Salma Hussain (Auditor) Ext 3152</b>
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## Appendix 1

Service	Audit Activity	Audit Days	Total	Priority
Corporate	Annual Governance Statement	25		18
	NFI	10		16
	Charities	5		15
	Debts Write-Off	8		17
	Fraud Risk Review	5		11
	Partnerships	10		7
	Strategic Partner Performance Indicators	16		14
	Safeguarding	8		13
		87		
Finance & Property	Benefits Calculation Check	15		9
	Payments of Benefits	10		1
	Treasury Management	10		3
	Payment of Creditors	10		4
	Council Tax	20		5
	Payroll	7		6
		72		
Information Governance				
	Information Governance	15	15	2
Housing & Development Control	Empty Homes Initiatives	15		12
		15		
Legal & Democratic Services	Electoral Registrations	8		10
		8		
Economy & Growth				
	Vision Park Project	10		8
		10		
External Clients				
	Burnley Leisure – Service Level Agreement	15	15	
	Frauds and Investigations	12		
	Emergent Risks	10		
	Follow-Up	5		
	Advice and Guidance	5	32	
	Total Available Days		254	

## Appendix 2

# INTERNAL AUDIT CHARTER AND STRATEGY

## INTERNAL AUDIT CHARTER

This Charter sets out the purpose, authority and responsibility of the Council's Internal Audit function, in accordance with the mandatory UK Public Sector Internal Audit Standards (PSIAS).

The Charter will be reviewed periodically and presented to Management Team and the Audit & Standards Committee for approval.

## PURPOSE

The Standards (PSIAS) define internal auditing as:

*"an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."*

CIPFA further define Internal Audit within their PSIAS Local Government Application Note as:

*"an independent and objective opinion to the organisation on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. It may also undertake consulting services at the request of the organisation, subject to there being no impact on the core assurance work and the availability of skills and resources."*

In a local authority, internal audit provides independent and objective assurance to the organisation, its Members as the Audit and Standards Committee, the Management Team and to the Chief Financial Officer (Head of Finance & Property) to help him discharge his responsibilities under S151 of the Local Government Act 1972, relating to the proper administration of the Council's financial affairs.

In addition, the Accounts and Audit Regulations 2015, Regulation 6 (1), requires that:

*"A relevant body must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes taking into account public sector internal audit standards and guidance".*

Internal Audit proper practices is defined as compliance with the Public Sector Internal Audit Standards and the CIPFA local government application note.

## ROLES IN THE CODE

The primary roles within the Standards are defined as below in respect of the Council.

Board	- Audit and Standards Committee
Senior Management	- Management Team
Chief Audit Executive	- Head of Finance & Property

As there is potential for conflict and thus independence in respect of the operational role in the Head of Finance & Property and the Section 151 Officer, when this is place the Internal Audit Manager will be Chief Audit Executive, reporting directly to Management Team and/or the Audit and Standards Committee as required. All members of the Internal Audit team have unrestricted access to Management Team and the Audit and Standards Committee.

The Head of Finance & Property is directly managed by the Chief Operating Officer. The Head of Finance & Property and the Chief Operating Officer are both members of Management Team. The Internal Audit Manager directly manages the Internal Auditors and reports to the Head of Finance & Property.

## ASSURANCE FRAMEWORK

Within an organisation, controls can be modelled to a framework which identifies 3 lines of defence. The first line of defence is the day to day operational controls, the second is the management controls (budget & performance monitoring, trend analysis) and the third is independent inspection, both internal & external.

Internal audit forms part of the third line of defence and provides assurance on the effectiveness of governance arrangements, risk management and internal controls, and this includes an assessment of the effectiveness of the first two lines of defence. Internal audit can place reliance on assurances provided by third parties, although depending on the source, this may require some independent validation.

In line with regulations, Internal Audit provides independent assurance on the adequacy of the Council's risk management, control and governance processes.

The Institute of Internal Auditors (IIA) defines assurance as:

*"an objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organisation. Examples may include financial, performance, compliance, system security, and due diligence engagements".*

## MISSION AND CORE PRINCIPLES

The International Professional Practices Framework (IPPF) overarching "Mission" for Internal Audit services is:

**To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.**

The "Core Principles" that underpin delivery of the mission require internal audit functions to:

- Demonstrate integrity.
- Demonstrate competence and due professional care.
- Be objective and free from undue influence (independent).
- Align with the strategies, objectives, and risks of the organisation.
- Be appropriately positioned and adequately resourced.
- Demonstrate quality and continuous improvement.
- Communicate effectively.
- Provide risk-based assurance.
- Be insightful, proactive, and future-focused.
- Promotes organisational improvement.

This aligns with the Council's values;

- T Together
- E Enterprising
- A Ambitious
- M Meeting Customer Needs

And applied within the Council's Strategic Priorities of the 4 P's

- People
- Prosperity
- Place
- Performance

To deliver the Council's Strategic Objectives.

## PUBLIC SECTOR INTERNAL AUDIT STANDARDS

The Relevant Internal Audit Standard Setters (RIASS) have adopted a common set of Public Sector Internal Audit Standards (PSIAS) since April 2013 and was last updated in March 2017. CIPFA updated its Local Government Application Note (LGAN) in February 2019.

### THE PURPOSE OF THE PSIAS

- Define the nature of internal auditing within the UK public sector;
  - Set basic principles for carrying out internal audit in the UK public sector;
  - Establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations; and,
  - Establish the basis for the evaluation of internal audit performance and to drive improvement planning.
- Internal Audit has adopted all aspects of the PSIAS, including the mission, definition, code of ethics and both attribute and performance standards.

CIPFA and the IIA have provided a 'Local Government Application Note' for these Standards and Internal Audit also complies with the further requirements and requirements of this.

### THE CODE OF ETHICS

Our auditors comply with the ethical codes issued by the relevant professional bodies (e.g. IIA, CIPFA) and the Council's own Code of Conduct. Internal Audit also have due regard to the Seven Principles of Public Life, as defined by the Committee on Standards in Public Life (Selflessness, Integrity, Objectivity, Accountability, Openness, Honesty, Leadership).<sup>1</sup>

The main principles, as set out in the PSIAS, which we will observe are:

- Integrity
- Objectivity
- Confidentiality
- Competency

<sup>1</sup> <https://www.gov.uk/government/publications/the-7-principles-of-public-life>

Internal auditors are also required to sign up to the requirements of due professional care.

## THE STANDARDS

The Standards have been developed to create consistency in the practice of internal audit across the public sector and establish the basis for quality assurance across the sector.

### ATTRIBUTE STANDARDS

- Purpose authority and responsibility
- Independence and objectivity
- Proficiency and due professional care
- Quality assurance and improvement programme.

### PERFORMANCE STANDARDS

- Managing the internal audit activity
- Nature of work
- Engagement planning
- Performing the engagement
- Communicating results
- Monitoring progress
- Communicating the acceptance of risks

## ASSURANCE AND CONSULTING SERVICES

All internal audit assurance and consulting services fall within the scope of the 'Definition of Internal Auditing'. The provision of assurance services is the primary role for internal audit. This role requires the internal audit to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control. This opinion is required to be considered as part of the Council's Annual Governance Statement.

Consulting services are generally advisory in nature and are performed at the specific request of the organisation, with the aim of improving governance, risk management and control and may contribute to the overall opinion. Such consulting services may include advice and guidance, counter fraud services, investigation, risk management support, governance reviews, information governance, training and more general consulting services where this does not compromise the independence of the service. This means that the auditor cannot undertake management responsibilities in these areas in which they are required to provide assurance.

Consulting services may also provide assurance and contribute to the annual internal audit opinion.

The scope of the internal audit service covers the whole organisation and all its services. Assurance and consulting services are provided to any area of the organisation both financial and operational. However, there are limited resources and as such the provision of services will be dependent on the overall value to the organisation and risks covered.

The responsibility for maintaining effective controls to counter fraud is the responsibility of the Council's management. It is important that Internal Audit is made aware of any suspected or detected fraud, corruption or impropriety which is required as part of the Financial Procedure Rules. Internal Audit will provide assurance about counter fraud arrangements in the organisation and may investigate in conjunction with management where this is appropriate and is authorised by the Head of Finance & Property.

Internal Audit Services are provided under a Service Level Agreement for Burnley Leisure. In this case the service will be delivered with available assurance about the shared systems where possible, but the reports are confidential to each organisation. For Burnley Leisure, the trust's Chief Executive is identified as the client officer and the trust's Audit Committee as the board.

## RESOURCES AND SKILLS

The current level of resources is considered sufficient to deliver the audit plan. Additional requests for work will be controlled to ensure they are kept within available contingency allowance, and do not compromise assurance work.

Auditors are encouraged to develop their skills and knowledge through undertaking various training programmes. The Council recognises both CIPFA and the Chartered Institute of Internal Auditors (CIA) qualification for internal auditing. Two team members currently have CIPFA qualifications.

Training needs are assessed on an ongoing basis and are formally reviewed during annual staff Personal Development Review meetings. The aim is to ensure auditors are operating at a level which fulfils client requirements and meets professional standards.

If the necessary skills/resources for an assignment is not available with the Internal Audit team, the Head of Finance will request further budget resources to provide flexibility to source these internally or externally, as required.

## ACCESS TO THE ORGANISATION

The internal audit service has a statutory right of access in the Accounts and Audit Regulations 2015 Section 5

*(2) Any officer or member of a relevant authority must, if required to do so for the purposes of the internal audit-*

*(a) make available such documents and records; and  
(b) supply such information and explanations; as are considered necessary by those conducting the internal audit.*

*(3) In this regulation "documents and records" includes information recorded in an electronic form.*

In addition, this access is part of the Council's Financial Procedure Rules.

## INDEPENDENCE

Internal audit is organisationally part of the Finance & Property Service, but it is independent to ensure that this does not impact on the provision of internal audit services to the whole organisation.

Internal audit is not functionally responsible for the management of any service, apart from itself. This is the responsibility of the organisation's management. Where such a conflict is identified it will require the removal of the individual auditor from auditing such a service for at least 12 months.

Each internal auditor can access members of the Management Team or the Audit and Standards Committee where they consider that there is a real or apparent conflict of interest that has not been appropriately addressed.

## RESPONSIBILITIES

Each member of internal audit is responsible for complying with the code of ethics and maintaining due professional care and operating a service in compliance with the Standards.

The Internal Audit Manager is responsible for managing the day to day service and ensuring that the service meets the requirements of the Council and Standards. They implement appropriate audit processes which are approved by the Head of Finance & Property.

The Head of Finance & Property is responsible for delivery of an effective independent internal audit service to the Council in accordance with proper practice (in compliance with the Standards and LGAN).

Management Team is responsible for ensuring that the organisation facilitates an effective internal audit service.

The Chief Finance Officer (Head of Finance & Property), Monitoring Officer (Chief Operating Officer) and Head of Paid Service (Chief Executive Officer) are all part of Management Team and as such share the responsibility for the delivery of an effective internal audit service. They are responsible for ensuring that members of internal audit have unrestricted access to report whenever required.

The Audit and Standards Committee are responsible for key issues in the compliance of the Standards and oversight of the Internal Audit service and ensuring that organisation management facilitate an effective internal audit service.

## PLANNING

Internal Audit will provide an annual plan of audits for the Council based on risks. The planning process will involve the consideration of the Council's risk management, governance and control arrangements. It will consider the Council's strategic objectives and corporate priorities.

## INTERNAL AUDIT STRATEGY

**The Internal Audit Strategy is a relatively high-level statement of the approach to delivery of the service within the organisation and in compliance with the standards.**

**Internal Audit will provide independent and objective assurance to the organisation, its Members, senior management and to the Head of Finance & Property to support them in discharging their responsibilities under S151 of the Local Government Act 1972, relating to the proper administration of the Council's financial affairs.**

**It is the Council's intention to provide a best practice, cost efficient internal audit service which adds value to the organisation's it serves.**

## INTERNAL AUDIT REMIT

The internal audit service is an assurance function that primarily provides an independent and objective opinion on the degree to which the internal control environment supports and promotes the achievement of the Council's objectives. Under the direction of a suitably qualified and experienced Head of Internal Audit, Internal Audit will:

- Provide management and Members with an independent, objective assurance and consulting activity designed to add value and improve the Council's operations.
- Assist the Audit and Standards Committee to reinforce the importance of effective corporate governance and ensure internal control improvements are delivered;
- Drive organisational change to improve processes and service performance;
- Work with other internal stakeholders and customers to review and recommend improvements to internal control and governance arrangements in accordance with regulatory and statutory requirements;
- Work closely with other assurance providers to share information and provide a value for money assurance and consultancy service and;
- Participate in local and national bodies and working groups to influence agendas and developments within the profession.

Internal Audit will ensure that it is not involved in the design, installation and operation of controls to not compromise its independence and objectivity. Internal Audit will however offer advice on the design of new internal controls in accordance with best practice.

## SERVICE DELIVERY

The Internal Audit service will be delivered by council's Internal Audit Service.

The statutory Chief Audit Executive or Head of Internal Audit roles for the Council will be undertaken by the Head of Finance or the Internal Audit Manager where independence requires this. Both officers will support each other in the delivery of these roles.

## KEY PERFORMANCE TARGETS

Key Performance Targets are established and monitored on a quarterly basis by Management Team. Update reports will be provided to the Audit and Standards Committee in a form, frequency and content as agreed with the Chair of the Audit and Standards Committee. Delivery of the Annual Internal Audit Opinion will be as required by PSIAS and meeting the organisational expectations. Internal Audit risks are part of the Finance & Property Service risk register.

## AUDIT PLANNING

Internal Audit has responsibility for preparing a balanced internal audit plan, ensuring audit maintains its independence and sufficient coverage to support the annual opinion. Each year, an audit plan will be presented to Management Team and to the Audit and Standards Committee, which will be based on the following:

- Requirements of the Council's Management team.
- Requirements as agreed with the Audit and Standards Committee.
- Review of available Corporate and Service Risk Registers and an audit activity risk analysis
- Outputs from other assurance providers
- Outputs from previous audit or fraud assignments
- Requirements as agreed with External Audit

Internal Audit will ensure management views and suggestions are considered when producing the audit plan.

The Internal Audit Plans are based on the following:

- **Council and Service Priorities and values:** The strategic objectives, service strategies and operational objectives are the starting point for planning and ensure that the internal audit is aligned with these.
- **Risk Based Systems Audit:** Audits of systems, processes or tasks where the internal controls are identified, evaluated and confirmed through a risk assessment process. The internal controls depending on the risk assessment are tested to confirm that they are operating correctly. The selection of work in this category is driven by risk analysis, services' own risks priorities and will include work in areas where the Council services are delivered in partnership with other organisations.
- **Key Financial Systems:** Audits of the Council's key financial systems
- **Probity Audit (Services and other establishments):** Audit of a discrete unit. Compliance with legislation, regulation, policies, procedures or best practice is confirmed.
- **Computer Audit:** The review of ICT infrastructure and associated systems, software and hardware.
- **Contract Audit:** Audits of the procedures and processes for the letting and monitoring of contracts, including reviews of completed and current contracts.
- **Special Projects/Value for Money:** Specific areas of Council business which may be subject to change through the development and implementation of new systems, or delivery models, where poor value for money or failing service standards have been identified or where there are new or significant risks will be targeted for review as part of the audit planning process. Value for money work is generally incorporated within the main functional areas of audit activity.
- **Corporate Governance support:** Risk management support is provided to facilitate the review and implementation of risk management strategies and to take the lead in compiling the Annual Governance Statement.
- **Provision of advice and support:** Internal Audit is involved in providing advice and support on an ad hoc basis. This may involve the provision of general advice on risks and controls, or more detailed work with specific business areas where there are significant changes to systems and processes or decisions which require independent due diligence.
- **Fraud, Corruption and Financial Irregularities:** Internal Audit will investigate fraud and irregularity arising during the year and may work alongside officers on cases particularly where there are significant control issues requiring audit and fraud input.
- **Follow up work:** Follow up work on outstanding audit recommendations will be undertaken as required.

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## POLICIES AND PROCEDURES

All internal audit work will be undertaken in accordance with Council regulations and professional standards. There is an Internal Audit Process which sets out the audit system, for staff to adhere to, including quality control procedures.

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## QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME

Internal Audit continuously reviews the quality and effectiveness of all aspects of the Internal Audit service. This includes:

- Establishing procedures that comply with the Public Sector Internal Audit Standards
- Maintaining a professional audit team with sufficient knowledge, skills and experience to carry out the Audit Plan. This includes undertaking appraisals and ensuring that training needs are identified and addressed
- Undertaking, reviewing and acting on client satisfaction surveys and feedback
- Reviewing audit methodology and benchmarking against best practice.

In line with the Public Sector Internal Audit Standards, Internal Audit has a quality and improvement programme in place. The results of the quality and assurance programme and progress against any improvement plans will be reported in the Annual Internal Audit Opinion report to the Audit and Standards Committee.

# Burnley Borough Council audit plan

**Year ending 31 March 2021**

Burnley Borough Council  
August 2021

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. 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.

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# Key matters

## Factors

### Council developments

The Council is operating within a financially challenging environment, particularly within the context of continuing austerity. The Authority set a one-year budget for 2020/2021 (in February 2020) which included the requirement to deliver net budget savings of £596k and an additional £213k corporate savings to arrive at a balanced budget position. The Council updated its Medium-Term Financial Strategy (MTFS) in February 2021 which covers a four-year period from 2022/23 to 2025/26. The MTFS sets out the financial challenge faced by the Council and identifies a potential funding gap of £4.1m from 2022/23 to 2025/26.

As 2020/21 progressed the government provided financial support to alleviate the pressures arising from Covid-19. The Council received direct funding of £2.486m which was largely directed at tackling homelessness and alleviating pressures from reduced income and additional Covid-19 costs. The Government also provided support for losses of income and the Council has submitted claims for income losses totalling £1.016m for the 2020/21 financial year, with the scheme continuing for the first quarter of 2021/22.

The Council has recently reported a pre-audit overall revenue outturn underspend of £31k for 2020/21. This is a net position after the application of Covid-19 funding to cover the additional expenditure and losses of income directly related to the pandemic.

### Impact of Covid 19 pandemic

The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council. The Council has been responsible for the receipt, processing and distribution of Covid Support Grants and Business Rates Relief that required finance staff to be re-deployed from normal duties while working remotely. During the 2021 financial year the Council lost income from the closure of car parks and leisure services over the summer of 2020 and faced additional challenges of reopening services under new government guidelines.

## Our response

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set further in our Audit Plan, has been agreed with the Head of Finance and Property.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in completing our Value for Money work. We will examine the Council's latest budget position and delivery of savings schemes to maintain financial sustainability.
- We will follow up progress against previously agreed recommendations.
- We will continue to provide you with sector updates via our Audit Committee updates.
- We have identified an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to increasing financial pressures. We have identified a significant risk in regards to management override of control (as set out on page 5).
- The Council's valuer reported a material uncertainty in regards to the valuation of properties in 2019/20 due to the Covid 19 pandemic and we expect uncertainty will continue in 2020/21. We identified a significant risk in regards to the valuation of properties (as set out on page 6)

# Introduction and headlines

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## Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Burnley Borough Council ('the Council') for those charged with governance.

## Respective responsibilities

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

## Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- Council's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit and Standards committee); and
- Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit and Standards Committee of your responsibilities. 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 audit approach is based on a thorough understanding of the Council's business and is risk based.

## Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management override of controls
- Valuation of land and buildings, including surplus assets and investment properties
- Valuation of pension fund net liability

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

## Materiality

We have determined planning materiality to be £1.18m (PY £1.19m) for the Council, which equates to 2% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.059m (PY £0.059m).

## Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money have identified the following risks of significant weakness:

- Financial sustainability

Under the new VFM arrangements review (set out further on pages 14 and 15 of this Plan) we will be considering your arrangements across the three key criteria areas of finance, governance and performance. We will continue to monitor and update our risk assessment and responses until we issue Auditor's Annual Report.

## Audit logistics

Our interim visit will take place in July and our final visit will take place in October. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report. Our audit approach is detailed in Appendix A.

Our fee for the audit will be £60,437 (PY: £62,720) for the Council, subject to the Council delivering a good set of financial statements and working papers.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements..

# Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
ISA240 revenue risk – the Council's reported revenue contains fraudulent transactions (rebutted)	<p>Under ISA (UK) 240 there is a rebuttable 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>Therefore we do not consider this to be a significant risk for Burnley Borough Council.</p>
Management over-ride of controls	<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>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate the design effectiveness of management controls over journals;</li> <li>• analyse the journals listing and determine the criteria for selecting high risk unusual journals;</li> <li>• test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration;</li> <li>• gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and</li> <li>• evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>

# Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings (including surplus assets and investment properties)	<p>The Council revalues its land and buildings, on a rolling five yearly basis and annually for investment properties. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£35.8 million of land and buildings, £11.3m of investment properties in the 2019/20 accounts) and the sensitivity of this estimate to changes in key assumptions.</p> <p>Additionally, management will need to ensure the carrying value in the Council's financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used.</p> <p><b>Surplus Assets:</b> All surplus assets should be valued and reported at fair value under relevant accounting principles. Again, this valuation of £8.4m in the 2019/20 accounts, represents a significant estimate by management in the financial statements due to the size of the numbers involved compared to Council's materiality and the sensitivity of this estimate to changes in key assumptions</p> <p>We therefore identified valuation of land and buildings, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate 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>• evaluate the competence, capabilities and objectivity of the valuation expert;</li> <li>• discuss with the valuer the basis on which the valuation was carried out;</li> <li>• challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the Council's valuer's report and the assumptions that underpin the valuation;</li> <li>• test revaluations made during the year to see if they had been input correctly into the Council's asset register; and</li> <li>• evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.</li> </ul>

# Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of pension fund net liability	<p>The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£49.2 million in the Council's 2019/20 balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• update our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls;</li> <li>• evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;</li> <li>• assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;</li> <li>• assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability;</li> <li>• test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;</li> <li>• undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report;</li> <li>• obtain assurances from the auditor of Lancashire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.</li> </ul>

# Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures which includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

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## Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?



# Accounting estimates and related disclosures

## Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings (including surplus assets) and investment properties
- Depreciation
- Year end provisions and accruals, specifically provisions for Non-Domestic Rate Appeals
- Credit loss and impairment allowances
- Valuation of defined benefit net pension fund liability
- Fair value estimates

## The Council's Information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pension liability. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Council (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.



## Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 [Revised December 2018], auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainty is unresolved.

## Planning enquiries

As part of our planning risk assessment procedures, we have sent planning enquiries letters, i.e., Informing the audit risk assessment and Accounting estimate management summary, which consist of a series of questions about obtaining an understanding of management processes and those charge with governance's oversight of the following areas: general enquiries of management, fraud, laws and regulations, related parties, and accounting estimates. We have received a detailed response to these enquires as discussed at the July Audit and Standards Committee.

## Further information

Further details on the requirements of ISA (UK) 540 [Revised December 2018] can be found in the auditing standard on the Financial Reporting Council's website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540\\_Revised-December-2018\\_final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf)

# Other matters

## Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.

We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.

We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.

We consider our other duties under legislation and the Code, as and when required, including:

- giving electors the opportunity to raise questions about your 2020/21 financial statements, consider and decide upon any objections received in relation to the 2020/21 financial statements;
- issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
- application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
- issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

## Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

## Going concern

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important and mark a significant departure from how this concept has been audited in the public sector in the past. In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. Applying such an approach should enable us to increase our focus on wider financial resilience (as part of our VfM work) and ensure that our work on going concern is proportionate for public sector bodies. We will review the Council's arrangements for securing financial sustainability as part of our Value for Money work and provide a commentary on this in our Auditor's Annual Report (see page 15).

# Progress against prior year audit recommendations

We identified the following issues in our 2019/20 audit of the Council's financial statements, which resulted in five recommendations being reported in our 2019/20 Audit Findings Report. We will follow up on the implementation of our recommendations during the 2020/21 audit.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
Low	<b>Rolling asset valuations</b> The Council have an annual process to use the outcomes of the current year's valuation to assess the possible movements in valuation of assets not revalued in the year, analysed by type of asset. However, for 2019/20 Management did not provide sufficient analysis to support the assertion that assets not revalued in the current year are materially accurate at the balance sheet date. While our own analysis has concluded in support of Management's position, it is incumbent upon Management to perform sufficient analysis to support their position, with the assistance of Management's expert if necessary.	A desktop exercise is carried out to determine whether there have been any material changes in the valuation of assets that hadn't been included for valuation in that year of the rolling valuation cycle. This desktop exercise is undertaken by the Council's internal valuer each financial year.
Page 30 Low	<b>Depreciation and asset useful economic lives</b> We noted as part of our work examining the charges for depreciation that the Council review the useful economic lives (UELs) of its buildings when spend is made rather than upon revaluation.	Management agreed with this recommendation and work has commenced on implementing this recommendation within the 2020/21 accounts.
Low	<b>Vfm financial sustainability</b> Delivery of individual identified savings schemes and activities are not monitored and reported to the Executive and Full Council. Consequently the Council is not aware if the agreed savings schemes are being delivered as planned.	The identified savings schemes are incorporated into the revenue budget and continue to be monitored during the year as part of the revenue monitoring process. Any savings that are not being achieved during the year are reported by exception.
Low	<b>Vfm financial sustainability</b> The Council faces significant financial challenge in 2021/22 and beyond.	The Council has identified and approved the savings required to balance the 2021/22 budget. Work is continuing to identify the savings required to meet the projected budget gaps identified through the recently approved MTFS.
Low	<b>Vfm capital schemes</b> The Pioneer Place Capital scheme may not be financially viable if COVID-19 continues to impact on the leisure and retail market	The Council, together with its delivery partners, is actively managing and reviewing the Pioneer Place scheme, to ensure that it remains financially viable, taking into account various environmental factors, including Covid-19. To achieve this aim, the Council has reduced the size of the scheme, reduced the annual rental income targets, and brought in additional external funding. These changes were reported and approved at Full Council in November 2020. Officers and delivery partners continue to actively monitor and report progress on the scheme.

# Materiality

## The concept of materiality

Materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. 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.

## Materiality for planning purposes

We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £1.18m (PY £1.19m) for the Council, which equates to 2% of your prior year gross expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £20k for senior officer remuneration.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

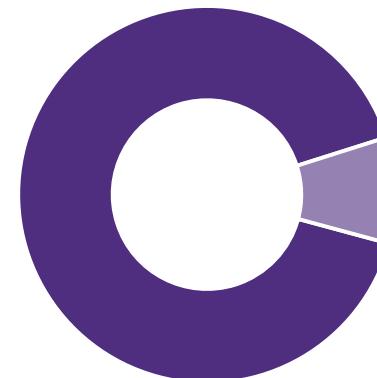
## Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.059m (PY £0.059m).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

## Prior year gross operating costs

£59.02m Council  
(PY: £59.34M)



- Prior year gross operating costs
- Materiality

## Materiality

£1.18m  
Council financial statements materiality  
(PY: £1.19m)

£0.059m  
Misstatements reported to the Audit Committee  
(PY: £0.059m)

# Value for Money arrangements

## Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

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There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary (qualified / unqualified) approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria. These are as set out below:



**Improving economy, efficiency and effectiveness**

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



**Financial Sustainability**

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)



**Governance**

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information



# Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we have identified are detailed in the first table below, along with the further procedures we will perform. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the second table below.

## Risks of significant weakness

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the body to deliver value for money.



### Financial Sustainability

The impact of Covid-19 and continuing uncertainty over future government funding means the Council continues to face future financial uncertainty. Pressures going forward include increasing demands for services, economic recovery from the pandemic and the achievement of strategic objectives, including funding support for major developments.

The Council's Medium Term Financial Strategy 2022-26 indicates a potential £4.1m cumulative budget gap over the 3 year period, assuming a 2% reduction in core spending. The Council recognises that to ensure financial balance in the longer term it will be required to deliver savings through strategic prioritisation, service transformation and continuous improvement.

## Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, as follows:



### Statutory recommendation

Written recommendations to the body under Section 24 [Schedule 7] of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



### Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



### Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

# Audit logistics and team



## Georgia Jones, Key Audit Partner

Leads our relationship with you and takes overall responsibility for the delivery of a high quality audit, meeting the highest professional standards and adding value to the Council.

## Helen Stevenson, Audit Manager

Plans and manages the delivery of the audit including regular contact with senior officers.

## Aaron Gouldman, Audit Incharge

Key audit contact responsible for the day to day management and delivery of the audit work.

## Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

## Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the agreed timetable you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

# Audit fees

In 2017, PSAA awarded a contract of audit for Burnley Borough Council to begin with effect from 2018/19. The fee agreed in the contract was £38,937. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2020/21 audit.

As referred to on page 14, the 2020/21 Code introduces a revised approach to our VFM work. This requires auditors to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach. Auditors now have to make far more sophisticated judgements on performance, as well as issue key recommendations if any significant weaknesses in arrangements are identified during the audit. We will be working with the NAO and other audit firms to discuss and share learning in respect of common issues arising across the sector.

The new approach will be more challenging for audited bodies, involving discussions at a wider and more strategic level. Both the reporting and the planning and risk assessment which underpins it, will require more audit time, delivered through a richer skill mix than in previous years. Our estimate is that for your audit, this will result in an increased value for money fee of £9,000 (23%). This is in line with increases we are proposing at all our local audits.

Additionally, across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as noted in the number of revised ISA's issued by the FRC that are applicable to audits of financial statements commencing on or after 15 December 2019, as detailed in Appendix 1.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. Our proposed work and fee for 2020/21, as set out below, is detailed overleaf and has been agreed with the Head of Finance and Property and is subject to PSAA agreement.

	<b>Actual Fee 2018/19</b>	<b>Actual Fee 2019/20</b>	<b>Proposed fee 2020/21</b>
XYZ Council Audit	£38,937	£62,720	£60,437
Total audit fees (excluding VAT)	£38,937	*£62,720	£60,437

\* Additional fee due to the extended period of the audit

## Assumptions

In setting the above fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

## Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

# Audit fees – detailed analysis

Scale fee published by PSAA	£38,937
<b>Ongoing increases to scale fee first identified in 2019/20</b>	
Raising the bar/regulatory factors	£2,500
Enhanced audit procedures for Property, Plant and Equipment	£1,750
Enhanced audit procedures for Pensions	£1,750
<b>Audit fee 2019/20</b>	<b>£44,937</b>
Additional fee due to Covid and remote working	£6,996
Additional fees due to delays in accounts preparation	£9,287
<b>Final audit fee 2019/20</b>	<b>£62,720</b>
<b>Fees 2020/21</b>	
Base Audit fee 2019/20	£44,937
<b>New issues for 2020/21</b>	
Additional work on Value for Money (VfM) under new NAO Code	£9,000
Increased audit requirements of revised ISAs	£6,500
<b>Proposed increase to revised standard audit fee 2019/20</b>	<b>£15,500</b>
<b>Total audit fees 2020/21 (excluding VAT)</b>	<b>£60,437</b>

# Independence and non-audit services

## Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons, relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 Financial Reporting Council's Ethical Standard (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

## Other services

No other services provided by Grant Thornton were identified.

Service	Fees £	Threats	Safeguards
Audit related			
Certification of Housing Benefit Subsidy return	24k	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £24,000 in comparison to the total fee for the audit of £60,437 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

# Appendix 1: Revised Auditor Standards and application guidance

## FRC revisions to Auditor Standards and associated application guidance

The following Auditing Standards and associated application guidance that were applicable to 19/20 audits, have been revised or updated by the FRC, with additional requirements for auditors for implementation in 2020/21 audits and beyond.

	Date of revision	Application to 2020/21 Audits
SQC (UK) 1 – Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Service Engagements	November 2019	<input checked="" type="checkbox"/>
ISA (UK) 200 – Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK)	January 2020	<input checked="" type="checkbox"/>
ISA (UK) 220 – Quality Control for an Audit of Financial Statements	November 2019	<input checked="" type="checkbox"/>
ISA (UK) 230 – Audit Documentation	January 2020	<input checked="" type="checkbox"/>
ISA (UK) 240 – The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements	January 2020	<input checked="" type="checkbox"/>
ISA (UK) 250 Section A – Consideration of Laws and Regulations in an Audit of Financial Statements	November 2019	<input checked="" type="checkbox"/>
ISA (UK) 250 Section B – The Auditor’s Statutory Right and Duty to Report to Regulators on Public Interest Entities and Regulators of Other Entities in the Financial Sector	November 2019	<input checked="" type="checkbox"/>

# Appendix 1: Revised Auditor Standards and application guidance continued

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	Date of revision	Application to 2020/21 Audits
ISA (UK) 260 – Communication With Those Charged With Governance	January 2020	
ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and Its Environment	July 2020	
ISA (UK) 500 – Audit Evidence	January 2020	
ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures	December 2018	
ISA (UK) 570 – Going Concern	September 2019	
ISA (UK) 580 – Written Representations	January 2020	
ISA (UK) 600 - Special considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)	November 2019	
ISA (UK) 620 – Using the Work of an Auditor’s Expert	November 2019	
ISA (UK) 700 – Forming an Opinion and Reporting on Financial Statements	January 2020	

# Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 701 – Communicating Key Audit Matters in the Independent Auditor’s Report	January 2020	
ISA (UK) 720 – The Auditor’s Responsibilities Relating to Other Information	November 2019	
Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom	December 2020	

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# Agenda Item 10

## AUDIT & STANDARDS COMMITTEE

### Work Programme 2021/22

DATE OF MEETING	AREAS TO BE CONSIDERED
7 <sup>th</sup> July 2021	<ul style="list-style-type: none"><li>• Internal Audit Opinion 2020/21</li><li>• Strategic Risk Register</li><li>• Work Programme 2021/22</li><li>• Annual Governance Statement 2020/21</li><li>• External Audit Progress Report - Grant Thornton</li></ul>
23 <sup>rd</sup> September 2021	<ul style="list-style-type: none"><li>• Standards Complaints Update</li><li>• Internal Audit Progress Report 2021/22 Q1</li><li>• Internal Audit Plan 2021/22</li><li>• Strategic Risk Register</li><li>• External Audit Progress Report 2020/21 &amp; Sector Update – Grant Thornton</li><li>• External Audit Plan 2021/22– Grant Thornton</li><li>• Work Programme 2021/22</li></ul>
27 <sup>th</sup> January 2022	<ul style="list-style-type: none"><li>• Approve Audited Accounts 2020/21</li><li>• External Audit Progress Report 2020/21</li><li>• Annual Governance Statement 2021/22 Arrangements</li><li>• Internal Audit Progress Report 2021/22 Q2</li><li>• Fraud Risk Assessment 2021/22</li><li>• Strategic Risk Register</li><li>• Regulation of Investigatory Powers Act – Annual Return</li><li>• Standards Complaints Update</li><li>• Work Programme 2021/22</li></ul>
17 <sup>th</sup> March 2022	<ul style="list-style-type: none"><li>• Internal Audit Progress Report 2021/22 Q3</li><li>• External Audit Plan 2021/22</li><li>• Strategic Risk Register 2021/22</li><li>• External Audit Progress Report 2020/21</li><li>• Annual Governance Statement 2020/21</li></ul>

	<ul style="list-style-type: none"><li>• Audit Findings 202/21 and Annual Statement of Accounts 2020/21</li><li>• External Audit Annual Audit Letter</li><li>• Work Programme 2021/22</li></ul>
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