

# AUDIT AND STANDARDS COMMITTEE

Wednesday, 7th March, 2018  
6.30 pm





# AUDIT AND STANDARDS COMMITTEE

## BURNLEY TOWN HALL

Wednesday, 7th March, 2018 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 Governance, Law & Regulation 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 [www.burnley.gov.uk/meetings](http://www.burnley.gov.uk/meetings).

### **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**

<b>7) External Audit Report and Sector Update</b>	9 - 20
To inform members of the progress report from the external auditors.	
<b>8) External Audit Plan for year end 31st March 2018</b>	21 - 36
To receive the external auditor's plan for the year ended 31 <sup>st</sup> March 2018.	
<b>9) Internal Audit Quarter 3 Progress Report</b>	37 - 52
To inform members of the work undertaken by Internal Audit for the period 1st October to 31st December 2017.	
<b>10) Work Programme</b>	53 - 54
To consider the Work Programme for the current year.	

## **MEMBERSHIP OF COMMITTEE**

### **Councillors**

Councillor Jean Cunningham (Chair)  
 Councillor Tony Harrison (Vice-Chair)  
 Councillor Joanne Greenwood  
 Councillor Margaret Lishman  
 Councillor Andrew Newhouse

Councillor Mark Payne  
 Councillor Ann Royle  
 Councillor Andrew Tatchell  
 Councillor Mark Townsend

### **Co-opted Members**

Colin Crowther, Burnley College  
 Louise Gaskell, East Lancashire  
 Chamber of Commerce  
 Councillor Kathryn Haworth, Habergham  
 Eaves Parish Council  
 Councillor Gill Smith, Cliviger Parish  
 Council

### **External Auditor**

Marianne Dixon, Grant Thornton - External  
 Auditor

Published: Tuesday, 27 February 2018

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## AUDIT AND STANDARDS COMMITTEE

BURNLEY TOWN HALL

Wednesday, 10th January, 2018 at 6.30 pm

### PRESENT

### MEMBERS

Councillor Jean Cunningham, In the Chair.

Councillors J Greenwood, M Ishtiaq, A Newhouse and A Tatchell

### OFFICERS

Ian Evenett	– Internal Audit Manager
David Donlan	– Accountancy Division Manager
Howard Hamilton-Smith	– Finance and Commercial Manager
Chris Gay	– Governance Manager
Imelda Grady	– Democracy Officer

### CO-OPTED MEMBERS

Councillor Kathryn  
Haworth  
Councillor Gill Smith

### EXTERNAL AUDITORS

Marianne Dixon	– Grant Thornton - External Auditor
Mark Heap	– Grant Thornton

#### 21. Apologies

Apologies were received from Louise Gaskill and Councillors Harrison and Royle.

#### 22. Minutes

The Minutes of the meeting held on 20<sup>th</sup> September 2017 were approved as a correct record and signed by the Chair.

#### 23. Exclusion of the Public and order of the agenda

That the public be excluded from the meeting for item 14 (minute 33 below) of the agenda since in view of the nature of the business to be transacted, if the public were present there would be a disclosure to them of exempt information. The report was to be taken as the last item of business.

#### **24. External Audit Progress Report and Sector Update**

Mark Heap from the external auditors Grant Thornton presented the audit progress report for the year ending 31<sup>st</sup> March 2018.

The report detailed the progress of the audit as at 22<sup>nd</sup> December 2017 and outlined the key milestones in order for the Council to meet the audit deadline date of July 2018. He confirmed the Council was well placed to meet this deadline.

Members were also provided with links to a digest of publications and topical issues.

#### **IT WAS AGREED**

That the report be noted.

#### **25. External Audit Certification Letter for the year ended 31st March 2017**

Marianne Dixon from the external auditors Grant Thornton presented the certification letter for the Council's Housing Benefit subsidy claim for the year ended 31<sup>st</sup> March 2017.

The letter identified issues, some of which had been identified in previous years, and which the external auditors were obliged to highlight. These would continue to be monitored during 2017/18. Marianne confirmed that overall the errors of the claim were relatively insignificant and the claim had been qualified.

#### **IT WAS AGREED**

That the report be noted.

#### **26. Final Accounts Arrangements**

Members received an update on the arrangements to date and the implication of the changes required ahead of the closure of accounts and the production of the Statement of Accounts.

The Committee was informed that a provisional date of Wednesday 5<sup>th</sup> July had been set for a final accounts workshop for all members.

#### **IT WAS AGREED**

- (1) That the report and the arrangements the Council was making in advance of the closure of accounts for the year 2017/18 be noted;
- (2) That approval be given to the proposed accounting policies to be followed in producing the Statement of Accounts as shown in appendix 1 to the report; and
- (3) That the provisional date of Wednesday 5<sup>th</sup> July 2018 for the final accounts workshop be confirmed.

## **27. Annual Governance Statement**

An updated copy of the Annual Governance Statement was circulated.

Members gave consideration to the proposed arrangements to provide assurance for the Annual Governance Statement for the financial year 2017/18.

The Statement would be in the same format as the previous year and be in line with CIPFA (Chartered Institute for Public Finance and Accountancy) and SOLACE (Society of Local Authority Chief Executives) guidelines.

### **IT WAS AGREED**

That the report be noted.

## **28. Internal Audit Q2 2017/18 Progress Report**

Members received for information details of the work undertaken by Internal Audit for the period 1<sup>st</sup> July to 30<sup>th</sup> September 2017.

### **IT WAS AGREED**

That the report be noted.

## **29. Fraud Risk Assessment 2017/18**

Members considered a report on the current fraud trends that affect the public sector and the Council's arrangements to deal with them.

The Committee was satisfied with the Council's reaction to the risk of fraud.

### **IT WAS AGREED**

That the report be noted.

### **30. General Data Protection Regulation**

Members consider the requirements and progress of General Data Protection Regulation (GDPR) for the Council to be able to meet the implementation date of May 2018.

The regulation would directly replace the Data Protection Act 1998. Key officers were aware of the GDPR and had been monitoring the development of the guidance and planning main elements of the responses.

#### **IT WAS AGREED**

That the report be noted.

### **31. Work Programme**

The work programme for the remainder of the 2017/18 Municipal Year was noted.

### **32. Exclusion of the Public.**

There were no members of the public present for the following item of business (minute 33)

### **33. Standards Complaints update**

Members received for information details of two complaints against members had been dealt with during the period August to December 2017 and noted the outcomes.



# Audit Progress Report and Sector Update

Burnley Borough Council  
Year ending 31 March 2018

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7 March 2018



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# Introduction



**Mark Heap**

**Engagement Lead**

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This paper provides the Audit and Standards Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)



**Marianne Dixon**

**Engagement Manager**

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Members of the Audit and Standards Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications. Click on the Grant Thornton logo to be directed to the website [www.grant-thornton.co.uk](http://www.grant-thornton.co.uk).

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

# Progress at 21 February 2018

## Financial Statements Audit

We have now completed our planning for the 2017/18 financial statements audit and have issued a detailed audit plan, setting out our proposed approach to the audit of the Council's 2017/18 financial statements.

We are presenting the audit plan to this March Audit and Standards Committee meeting.

We are due to commence our interim audit in March 2018. Our interim fieldwork visit will include:

- Updated review of the Council's control environment
- Updated understanding of financial systems
- Review of Internal Audit reports on core financial systems
- Early work on emerging accounting issues
- Early substantive testing

We will report any findings from the interim audit to you in our Progress Report at the next Audit and Standards Committee.

The statutory deadline for the issue of the 2017/18 opinion is brought forward by two months to 31 July 2018. We have discussed the timetable with officers and aim to deliver an early audit opinion in advance of the deadline of 31 July 2018..

The final accounts audit is due to begin on the 29<sup>th</sup> May with findings reported to you in the Audit Findings Report in advance of the deadline of 31 July 2018.

## Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

The guidance confirmed the overall criterion as: "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

The three sub criteria for assessment to be able to give a conclusion overall are:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

We have completed our initial risk assessment to determine our approach and this is set out in the Audit Plan.

We will report our work in the Audit Findings Report and give our Value For Money Conclusion in advance of the deadline of 31 July 2018.

## Other areas

### Certification of claims and returns

We are required to certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions. This certification work for the 2018/19 claim will be concluded by November 2018.

The results of the certification work will be reported to you in our certification letter.

### Meetings

We continue to have regular discussions with finance team regarding emerging developments and to ensure the audit process is smooth and effective. We also meet regularly with your Chief Executive to discuss the Council's strategic priorities and plans.

### Events

We provide a range of workshops, along with network events for members and publications to support the Council.

Our most recent event, a financial reporting workshop, was attended by a number of your finance team.

Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

# Audit Deliverables

2017/18 Deliverables	Planned Date	Status
<b>Fee Letter</b> Confirming audit fee for 2017/18.	April 2017	Complete
<b>Accounts Audit Plan</b> We are required to issue a detailed accounts audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2017-18 financial statements.	End January 2018	Complete
<b>Interim Audit Findings</b> We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	March 2018	Not yet due
<b>Audit Findings Report</b> The Audit Findings Report will be reported to the July Audit and Standards Committee.	June / July 2018	Not yet due
<b>Auditors Report</b> This is the opinion on your financial statement, annual governance statement and value for money conclusion.	June / July 2018	Not yet due
<b>Annual Audit Letter</b> This letter communicates the key issues arising from our work.	August 2018	Not yet due
<b>Annual Certification Letter</b> This letter reports any matters arising from our certification work carried out under the PSAA contract.	December 2018	Not yet due

# Sector Update

Local government finances are at a tipping point. Councils are tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider NHS and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- **Grant Thornton Publications**
- **Insights from local government sector specialists**
- **Reports of interest**
- **Accounting and regulatory updates**

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website

# Public Sector Audit Appointments: Report on the results of auditors' work 2016/17

This is the third report on the results of auditors' work at local government bodies published by PSAA. It summarises the results of auditors' work at 497 principal bodies and 9,752 small bodies for 2016/17. The report covers the timeliness and quality of financial reporting, auditors' local value for money work, and the extent to which auditors used their statutory reporting powers.

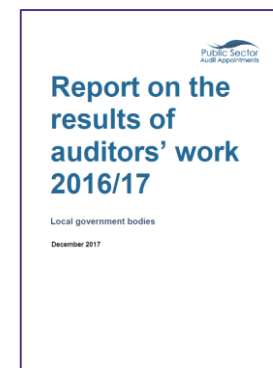
The timeliness and quality of financial reporting for 2016/17, as reported by auditors, remained broadly consistent with the previous year for both principal and small bodies. Compared with 2015/16, the number of principal bodies that received an unqualified audit opinion by 31 July showed an encouraging increase. 83 principal bodies (17 per cent) received an unqualified opinion on their accounts by the end of July compared with 49 (10 per cent) for 2015/16. These bodies appear to be well positioned to meet the earlier statutory accounts publication timetable that will apply for 2017/18 accounts.

Less positively, the proportion of principal bodies where the auditor was unable to issue the opinion by 30 September increased compared to 2015/16. Auditors at 92 per cent of councils (331 out of 357) were able to issue the opinion on the accounts by 30 September 2017, compared to 96 per cent for the previous year. This is a disappointing development in the context of the challenging new reporting timetable from 2017/18. All police bodies, 29 out of 30 fire and rescue authorities and all other local government bodies received their audit opinions by 30 September 2017.

The number of qualified conclusions on value for money arrangements has remained relatively constant at 7 per cent (30 councils, 2 fire and rescue authorities and 1 other local government body) compared to 8 per cent for 2015/16. The most common reasons for auditors issuing non-standard conclusions on the 2016/17 accounts were:

- the impact of issues identified in the reports of statutory inspectorates;
- corporate governance issues; and
- financial sustainability.

The latest results of auditors' work on the financial year to 31 March 2017 show a solid position for the majority of principal local government bodies. Generally, high standards of financial reporting are being maintained despite the financial and service delivery challenges currently facing local government.



# Changes to the prudential framework of capital finance

The Ministry of Housing Communities and Local Government has updated the Local Authority Investments Guidance and the Minimum Revenue following its publication of consultation responses on 2 February 2018.

A total of 213 consultation responses were received by the MHCLG by the 22 December 2017 deadline from across local government. Following consideration of the responses the Government has:

- made some technical changes to the Investments Guidance and MRP Guidance
- amended proposals relating to useful economic lives of assets
- implemented the Investments Guidance for 2018-19, but allowed flexibility on when the additional disclosure first need to be presented to full Council
- deferred implementation of MRP Guidance to 2019-20 apart from the guidance “Changing methods for calculating MRP”, which applies from 1 April 2018.

Key changes are noted below.

## Statutory Guidance on Local Authority Investments

**Transparency and democratic accountability** – the revised guidance retains the requirement for an Investment Strategy to be prepared at least annually and introduces some additional disclosures to improve transparency. However, as the changes to the CIPFA Prudential Code include a new requirement for local authorities to prepare a Capital Strategy, the revised guidance allows the matters required to be disclosed in the Investment Strategy to be disclosed in the Capital Strategy.

**Principle of contribution** – the consultation sought views on the introduction of a new principle requiring local authorities to disclose the contribution that non-core investments make towards core functions. Authorities’ core objectives include ‘service delivery objectives and/or placemaking role.’ This clarification has been made to recognise the fact that local authorities have a key role in facilitating the long term regeneration and economic growth of their local areas and that they may want to hold long term investments to facilitate this.

**Introduction of a concept of proportionality** – the Government is concerned that some local authorities may become overly dependent on commercial income as a source of revenue for delivering statutory services. The consultation sought views on requiring local authorities to disclose their dependence on commercial income to deliver statutory services and the amount of borrowing that has been committed to generate that income. A majority of respondents supported the introduction of a concept of proportionality, recognising the importance that local authorities make decisions based on an understanding of the overall risk that they face.

**Borrowing in advance of need** – by bringing non-financial investments (held primarily or partially to generate a profit) within the scope of the Investments Guidance, the consultation proposals made it clear that borrowing to fund acquisition of non-financial assets solely to generate a profit is not prudential. The Investment Guidance requires local authorities who have borrowed in advance of need solely to generate a profit to explain why they have chosen to disregard statutory guidance. It is also important to note that nothing in the Investment Guidance or the Prudential Code overrides statute, and local authorities will still need to consider whether any novel transaction is lawful by reference to legislation.

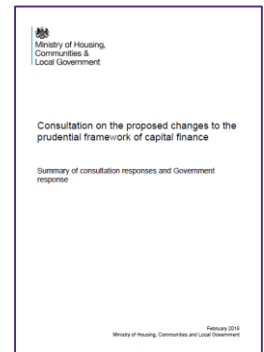
## Minimum Revenue Provision Guidance

The consultation sought views on proposals to update the guidance relating to MRP to ensure local authorities are making prudent provision for the repayment of debt.

**Meaning of a charge to the revenue account** – the Government does not believe that crediting the revenue account is either prudent or within the spirit of the approach set out in the relevant Regulations. For this reason a charge to the account should not be a negative charge.

**Impact of changing methods of calculating MRP** – the Government does not expect any local authority to recalculate MRP charged in prior years due to the proposed changes in methodology.

**Introduction of a maximum economic life of assets** – the consultation sought views on setting a maximum useful economic life of 50 years for freehold land and 40 years for other assets. The MRP Guidance will set a maximum life of 50 years, but allow local authorities to exceed this where the related debt is PFI debt with a longer term than 50 years, or where a local authority has an opinion from an appropriately qualified person that an operational asset will deliver benefits for more than 50 years.



## Changes to capital finance framework

### Challenge question:

Have members been briefed on the impact of the changes to the prudential framework of capital finance?



# CIPFA publications - The Prudential Code for Capital Finance in Local Authorities (2017 Edition)

CIPFA have published an updated 'Prudential Code for Capital Finance in Local Authorities'. Key developments include the introduction of more contextual reporting through the requirement to produce a capital strategy along with streamlined indicators.

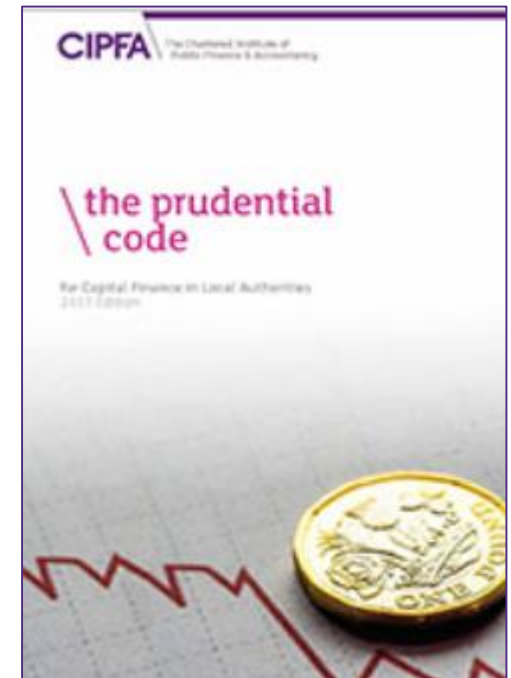
The framework established by the Prudential Code should support local strategic planning, local asset management planning and proper option appraisal. The objectives of the Prudential Code are to ensure, within this clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable.

Local authorities are required by regulation to have regard to the Prudential Code when carrying out their duties in England and Wales under Part 1 of the Local Government Act 2003, in Scotland under Part 7 of the Local Government in Scotland Act 2003, and in Northern Ireland under Part 1 of the Local Government Finance Act (Northern Ireland) 2011.

Since the Prudential Code was last updated in 2011, the landscape for public service delivery has changed significantly following the sustained period of reduced public spending and the developing localism agenda. It reflects the increasing diversity in the sector and new structures, whilst providing for streamlined reporting and indicators to encourage better understanding of local circumstances and improve decision making.

The introduction of a capital strategy allows individual local authorities to give greater weight to local circumstances and explain their approach to borrowing and investment.

The Code is available in hard copy and online.



## CIPFA Publication

### Challenge question:

Have members been briefed on the impact of the changes to the prudential code?



# Supply Chain Insights tool helps support supply chain assurance in public services

## Grant Thornton UK LLP has launched a new insights and benchmarking platform to support supply chain assurance and competitor intelligence in public services.

The Supply Chain Insights service is designed for use by financial directors and procurement professionals in the public sector, and market leaders in private sector suppliers to the public sector. It provides users with a detailed picture of contract value and spend with their supply chain members across the public sector. The analysis also provides a robust and granular view on the viability, sustainability, market position and coverage of their key suppliers and competitors.

The platform is built on aggregated data from 96 million invoices and covers £0.5 trillion of spending. The data is supplemented with financial standing data and indicators to give a fully rounded view. The service is supported by a dedicated team of analysts and is available to access directly as an on-line platform.

Phillip Woolley, Partner, Grant Thornton UK LLP, said:

"The fall-out from the recent failure of Carillion has highlighted the urgent need for robust and ongoing supply chain monitoring and assurance. Supply Chain Insights provides a clear picture of your suppliers' activities across the sector, allowing you to understand risks, capacity and track-record. We think it's an indispensable resource in today's supplier market."



### The tool enables you to immediately:

- access over 96 million transactions that are continually added to
- segment invoices by:
  - organisation and category
  - service provider
  - date at a monthly level
- benchmark your spend against your peers
- identify:
  - organisations buying similar services
  - differences in pricing
  - the leading supplier
- see how important each buyer is to a supplier
- benchmark public sector organisations' spend on a consistent basis
- see how much public sector organisations spend with different suppliers

Supply Chain Insights forms part of the Grant Thornton Public Sector Insight Studio portfolio of analytics platforms.

Click on Supply Chain Insights for more information.

## Supply Chain Insights

Grant Thornton

Challenge question:

Has your Authority considered how our Supply Chain Insight tool can help support your supply chain assurance?



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# Links

## Grant Thornton website links

<https://www.grantthornton.co.uk/>

<http://www.grantthornton.co.uk/industries/publicsector>

<http://www.grantthornton.co.uk/en/insights/through-a-local-lens-solace-summit-2017/>

<http://www.grantthornton.co.uk/en/insights/combined-authorities-signs-of-success/>

<http://www.grantthornton.co.uk/en/insights/a-guide-to-setting-up-a-social-enterprise/>

<http://www.grantthornton.co.uk/en/insights/commercial-healthcheck-in-local-authorities/>

<http://www.cfoinsights.co.uk/>

<http://supplychaininsights.grantthornton.co.uk/>

## PSAA website links

<https://www.psa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>

## HMCLG website links

<https://www.gov.uk/government/consultations/proposed-changes-to-the-prudential-framework-of-capital-finance>

<https://www.gov.uk/government/publications/capital-finance-guidance-on-local-government-investments-second-edition>

<https://www.gov.uk/government/publications/capital-finance-guidance-on-minimum-revenue-provision-third-edition>

## CIPFA website link

<http://www.cipfa.org/policy-and-guidance/publications/t/the-prudential-code-for-capital-finance-in-local-authorities-2017-edition-book>

## National Audit Office link

<https://www.nao.org.uk/report/the-adult-social-care-workforce-in-england/>



# External Audit Plan

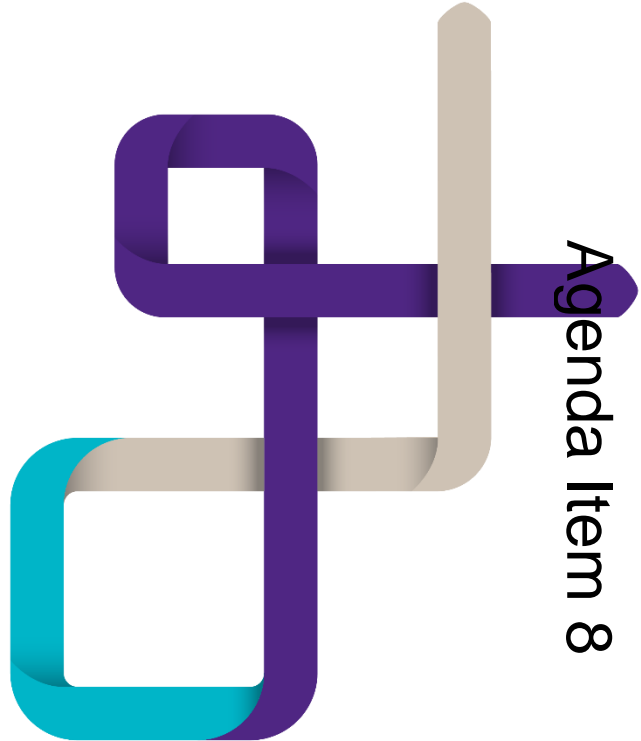
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Burley Borough Council

23 February 2018

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Agenda Item 8

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Your key Grant Thornton  
team members are:

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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 any 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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# Introduction & headlines

## 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 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 on the [PSAA website](#).

## 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:

- financial statements (including the Annual Governance Statement) 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 specific audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management override of controls
- PPE valuation
- Pension 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 £1.21m (PY £1.19m), which equates to 2% of your forecast 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 £0.065m (PY £0.059m).

## Value for Money arrangements

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

- **Financial sustainability** - whilst the Council has been successful in recent years in reducing its net expenditure, the Council still needs to find savings of around £5m over the 4 year period 2018/19 -2021/22., which is equivalent to around 33% of the Council's net budget.

## Audit logistics

Our interim visit will take place in March and our final visit will take place in June. Our key deliverables are this Audit Plan and our Audit Findings Report.

Our fee for the audit will be no less than £50,567 (PY: £50,567) for the Council.

## Independence

We have complied with the Financial Reporting Council's Ethical Standard 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.

# Deep business understanding

## Changes to service delivery

### Commercialisation

The scale of investment activity, primarily in commercial property, has increased as local authorities seek to maximise income generation. These investments are often discharged through a company, partnership or other investment vehicle. Local authorities need to ensure that their commercial activities are presented appropriately, in compliance with the CIPFA Code of Practice and statutory framework, such as the Capital Finance Regulations. Where borrowing to finance these activities, local authorities need to comply with CIPFA's Prudential Code. A new version is due to be published in December 2017.

### Devolution

The Cities and Local Government Devolution Act 2016 provides the legal framework for the implementation of devolution deals with combined authorities and other areas. Whilst there are no plans for formal changes to the local government structure in Lancashire there are ongoing discussions across local authorities to develop ways of working across the county to improve consistency and quality of services. These discussions include the potential for obtaining additional funding from central government through such developments.

## Changes to financial reporting requirements

### Accounts and Audit Regulations 2015 (the Regulations)

The Department of Communities and Local Government (DCLG) is currently undertaking a review of the Regulations, which may be subject to change. The date for any proposed changes has yet to be confirmed, so it is not yet clear whether they will apply to the 2017/18 financial statements.

Under the 2015 Regulations local authorities are required to publish their accounts along with the auditors opinion by 31 July 2018.

In 2016/17 the audit opinion was given on 27 July 2017, so the Council is in a good position to achieve the earlier deadline.

### Changes to the CIPFA 2017/18 Accounting Code

CIPFA have introduced other minor changes to the 2017/18 Code which confirm the going concern basis for local authorities, and updates for Leases, Service Concession arrangements and financial instruments.

## Key challenges

### Financial pressures

Like many others, the Council is facing a challenging financial position with reduced central government funding and uncertainty in the wider economy. At month 9 the Council was forecasting a small underspend of £98,000 against a net revenue budget of £14.6m.

In the medium to longer term the Council faces significant challenges, needing to find savings of around £5m over the 4 year period 2018/19 -2021/22., which is equivalent to around 33% of the Council's net budget

### Impacts of Grenfell Tower fire

The Grenfell Tower fire disaster in 2017 has led to the identification of approximately 150 high rise buildings in local authority ownership that have failed fire safety tests. Local authorities are expected to make these buildings fire safe. DCLG are reviewing the current restrictions on the use of the financial resources that prevent local authorities from making essential fire safety upgrades.

Whilst the Council does not provide social housing it works with partners who provide strategic services from public buildings (eg leisure services) in which the council has an interest.

## Our response

- We will consider your arrangements for managing and reporting your financial resources, as part of our work in reaching our Value for Money conclusion.
- We will consider whether your financial position leads to uncertainty about the going concern assumption and will review any related disclosures in the financial statements.
- We will keep you informed of changes to the Regulations and any associated changes to financial reporting or public inspection requirements for 2017/18 through on-going discussions and invitations to our technical update workshops.
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2017/18 CIPFA Code.



# Significant risks identified

Significant risks are defined by professional standards as risks that, in the judgement of the auditor, require special audit consideration because they have a higher risk of material misstatement. Such risks often relate to significant non-routine transactions and judgmental matters. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<b>The revenue cycle includes fraudulent transactions</b>	<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</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>
<b>Management over-ride of controls</b>	<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>Management over-ride of controls is a risk requiring special audit consideration.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• gain an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness</li> <li>• obtain a full listing of journal entries, identify and test unusual journal entries for appropriateness</li> <li>• evaluate the rationale for any changes in accounting policies or significant unusual transactions.</li> </ul>

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# Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<p><b>Valuation of property, plant and equipment</b></p>	<p>The Council revalues its land and buildings on a rolling basis over a five year period to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration and a key audit matter for the audit.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>Review 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>Consider the competence, expertise and objectivity of any management experts used.</li> <li>Discuss with the valuer the basis on which the valuation is carried out and challenge the key assumptions.</li> <li>Review and challenge the information used by the valuer to ensure it is robust and consistent with our understanding.</li> <li>Test revaluations made during the year to ensure they are input correctly into the Council's asset register</li> <li>Evaluate the assumptions made by management for those assets not revalued during the year and consider how management has satisfied themselves that these are not materially different to current value.</li> </ul>
<p><b>Valuation of pension fund net liability</b></p>	<p>The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration and a key audit matter for the audit.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>Identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement</li> <li>Evaluate the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out</li> <li>Undertake procedures to confirm the reasonableness of the actuarial assumptions made.</li> <li>Check the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.</li> </ul>

# Reasonably possible risks identified

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<b>Operating expenses</b>	<p>Non-pay expenses on other goods and services represents a significant percentage (77%) of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs.</p> <p>We identified completeness of non- pay expenses as a risk requiring particular audit attention:</p>	<p>We will</p> <ul style="list-style-type: none"> <li>• evaluate the Council's accounting policy for recognition of non-pay expenditure for appropriateness;</li> <li>• gain an understanding of the Council's system for accounting for non-pay expenditure and evaluate the design of the associated controls;</li> <li>• perform substantive testing of a sample of non-pay expenses to confirm accuracy, valid spend, correct classification and recognition in correct financial period.</li> <li>• test April non-pay expenditure to ensure it is charged to the correct year</li> <li>• re-perform all year-end reconciliations and investigate significant adjustments.</li> </ul>
<b>Employee remuneration</b>	<p>Payroll expenditure also represents a significant percentage (17%) of the Council's operating expenses.</p> <p>As the payroll expenditure comes from a number of individual transactions and an interface with a sub-system there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention</p>	<p>We will</p> <ul style="list-style-type: none"> <li>• evaluate the Council's accounting policy for recognition of payroll expenditure for appropriateness;</li> <li>• gain an understanding of the Council's system for accounting for payroll expenditure and evaluate the design of the associated controls;</li> <li>• re-perform all year-end reconciliations and investigate significant adjustments</li> <li>• agree year end accruals to supporting documentation</li> <li>• perform substantive analytical procedures disaggregated for each month.</li> </ul>

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# 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 carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued and consistent with our knowledge of the Council.
- We will read your Narrative Statement and check that it is consistent with the financial statements on which we give an opinion and that the disclosures included in it are in line with the requirements of the CIPFA Code of Practice.
- 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 the Act and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your 2017/18 financial statements, consider and decide upon any objections received in relation to the 2017/18 financial statements;
  - issue of a report in the public interest; and
  - making a written recommendation to the Council, copied to the Secretary of State.
- 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 about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570). We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements.

# Materiality

## The concept of materiality

The concept of 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

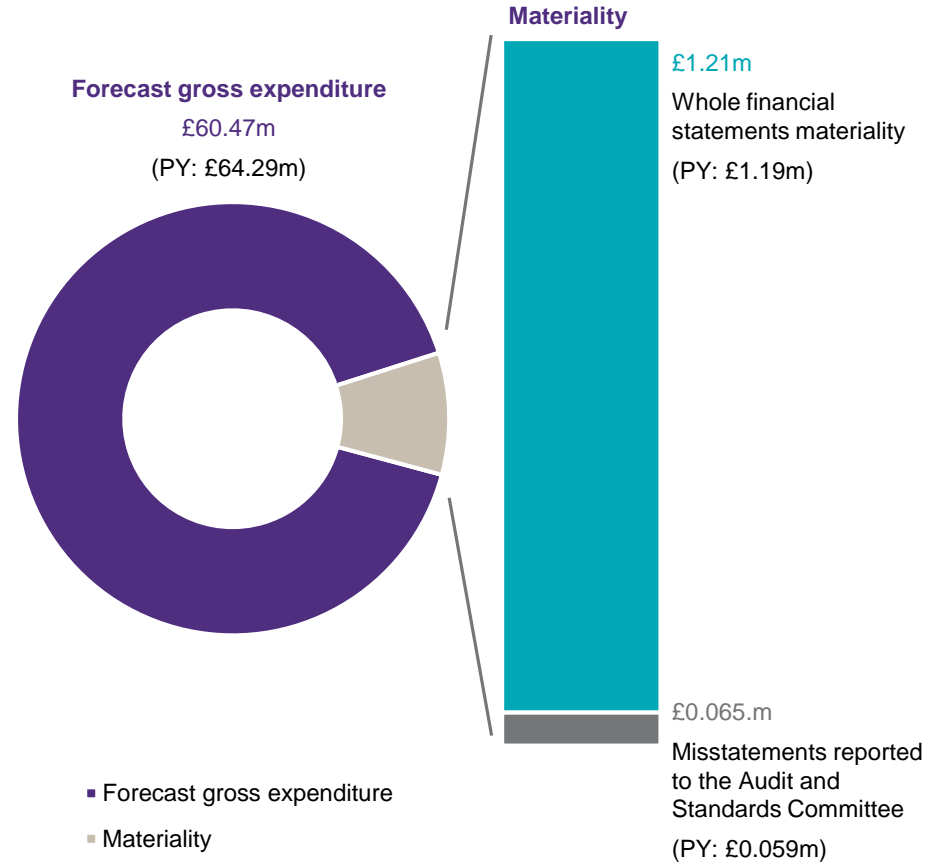
We propose to calculate financial statement materiality based on a proportion of the gross revenue expenditure of the Council for the financial year. In the prior year we used the same benchmark. We have determined planning materiality (the financial statements materiality determined at the planning stage of the audit) to be £1.21m (PY £1.19m), which equates to 2% of your forecast gross expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision.

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 and Standards 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 £0.065m (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 and Standards Committee to assist it in fulfilling its governance responsibilities.



# Value for Money arrangements

## Background to our VFM approach

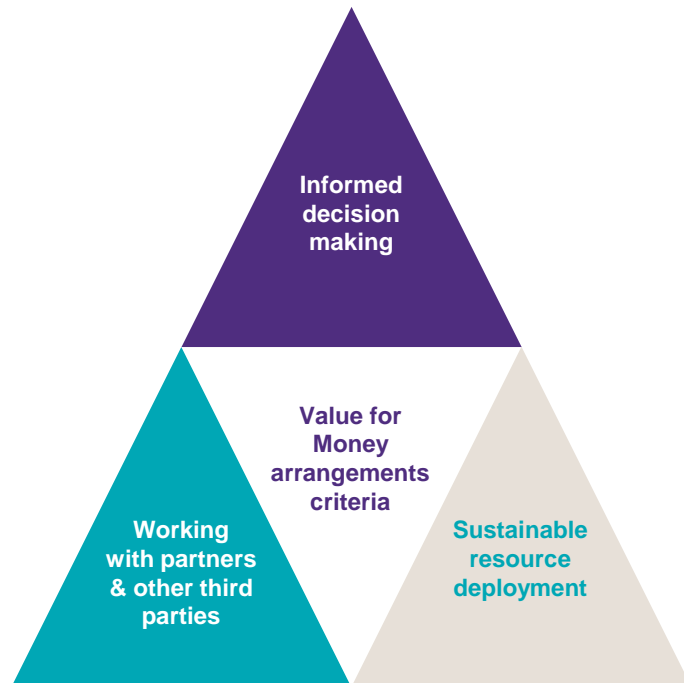
The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance identifies one single 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.”*

This is supported by three sub-criteria, as set out below:

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## Significant VFM risks

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



### Financial sustainability

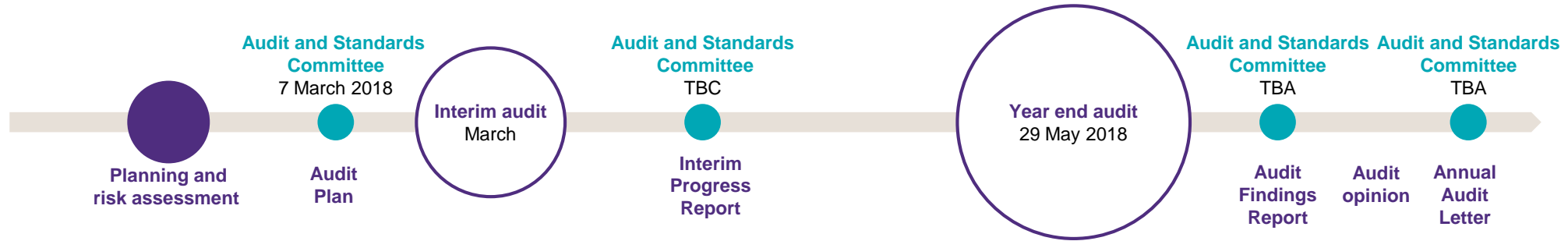
Whilst the Council has been successful in recent years in reducing its net expenditure, the Council still needs to find savings of around £5m over the 4 year period 2018/19 - 2021/22., which is equivalent to around 33% of the Council's net budget

This risk relates to the Council's arrangements for sustainable resource deployment.

To address this risk to our vfm conclusion we will:

- review the latest medium term financial plan to confirm that it reflects an accurate assessment of the Council's financial position and consideration of the progress made by officers in developing plans to address the financial gap
- review the Council's organisational development strategy and ensure that strategic prioritisation and service transformation are recognised within the strategic plan
- review evidence that the Council has taken sufficient steps to ensure it has a realistic expectation that the savings required can be achieved.
- review the outturn position for 2017/18

# Audit logistics, team & audit fees



## Mark Heap, Engagement Lead

**Role:** Overall quality control; accounts opinions; final authorisation of reports; attendance at Audit and Standards Committee



## Marianne Dixon, Audit Manager

**Role:** Overall audit management; coordination of work of specialists or advisors, consideration of VFM work; quality assurance of audit work and outputs.



## Anna Maria Delcheva, Audit Incharge

**Role:** Management of audit fieldwork, including accounts; coordination of work completed by audit assistants; coordination of work of specialists and advisors where delegated by the Manager.

## Audit fees

The planned audit fees are £50,567 (PY: £50,567) for the financial statements audit.

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited and have been provisionally set as £6,732. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

In setting your fee, we have assumed that the scope of the audit, and the Council and its activities, do not significantly change.

## Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, we have detailed our expectations and requirements in the following section 'Early Close'. If the requirements detailed overleaf are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

# Early close

## Meeting the early close timeframe

Bringing forward the statutory date for publication of audited local government accounts to 31 July this year, across the whole sector, is a significant challenge for local authorities and auditors alike. For authorities, the time available to prepare the accounts is curtailed, while, as auditors we have a shorter period to complete our work and face an even more significant peak in our workload than previously.

We have carefully planned how we can make the best use of the resources available to us during the final accounts period. As well as increasing the overall level of resources available to deliver audits, we have focused on:

- bringing forward as much work as possible to interim audits
- starting work on final accounts audits as early as possible, by agreeing which authorities will have accounts prepared significantly before the end of May
- seeking further efficiencies in the way we carry out our audits
- working with you to agree detailed plans to make the audits run smoothly, including early agreement of audit dates, working paper and data requirements and early discussions on potentially contentious items.

We are satisfied that, if all these plans are implemented, we will be able to complete your audit and those of our other local government clients in sufficient time to meet the earlier deadline.

## Client responsibilities

Where individual clients 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 clients. We will therefore conduct audits in line with the timetable set out in audit plans (as detailed on page 11). 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 by the statutory deadline. Such audits are unlikely to be re-started until very close to, or after the statutory deadline. In addition, it is highly likely that these audits will incur additional audit fees.

## Our requirements

To minimise the risk of a delayed audit or additional audit fees being incurred, you need to ensure that you:

- produce draft financial statements of good quality by the deadline 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
- 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.

In return, we will ensure that:

- the audit runs smoothly with the minimum disruption to your staff
- you are kept informed of progress through the use of an issues tracker and weekly meetings during the audit
- we are available to discuss issues with you prior to and during your preparation of the financial statements.



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# Independence & 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 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 December 2016 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

## Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. No non-audit services were identified.

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# Appendices

A. Revised ISAs

# Appendix A: Revised ISAs

Detailed below is a summary of the key changes impacting the auditor's report for audits of financial statement for periods commencing on or after 17 June 2016.

Section of the auditor's report	Description of the requirements
<b>Key Audit Matters (KAM)</b>	We will be required to include matters that, in our professional judgment, were of most significance in the audit of the financial statements of the current period. These matters will be selected from those matters communicated with those charged with governance. The auditor's report will include a description of the KAM, our response and key observations.
<b>Conclusions relating to going concern</b>	We will be required to conclude and report whether: <ul style="list-style-type: none"><li>• The directors use of the going concern basis of accounting is appropriate</li><li>• The directors have disclosed identified material uncertainties that may cast significant doubt about the Council's ability to continue as a going concern.</li></ul>
<b>Material uncertainty related to going concern</b>	We will need to include a brief description of the events or conditions identified that may cast significant doubt on the Council's ability to continue as a going concern when a material uncertainty has been identified and adequately disclosed in the financial statements. Going concern material uncertainties are no longer reported in an Emphasis of Matter section in our audit report.
<b>Other information</b>	We will be required to include a section on other information which includes: <ul style="list-style-type: none"><li>• Responsibilities of management and auditors regarding other information</li><li>• A statement that the opinion on the financial statements does not cover the other information unless required by law or regulation</li><li>• Reporting inconsistencies or misstatements where identified</li></ul>
<b>Additional responsibilities for directors and the auditor</b>	We will be required to include the respective responsibilities for directors and us, as auditors, regarding going concern.
<b>Other matters which we are required to address</b>	We will be required to include details of who appointed us, date of appointment, period of uninterrupted engagement, non-audit services, and that the audit opinion is consistent with the Audit Findings Report.
<b>Format of the report</b>	The opinion section appears first followed by the basis of opinion section.



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**Internal Audit Progress Report**

**REPORT TO AUDIT AND STANDARDS COMMITTEE**



<b>DATE</b>	<b>07/03/2018</b>
<b>PORTFOLIO</b>	<b>Resources and Performance Management</b>
<b>REPORT AUTHOR</b>	<b>Nadeem Ukadia</b>
<b>TEL NO</b>	<b>01282 425011 Ext 3150</b>
<b>EMAIL</b>	<b>nukadia@burnley.gov.uk</b>

**PURPOSE**

1. To inform members of the work undertaken by Internal Audit for the period 1st October to 31st December 2017.

**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 October to 31st December 2017 there have been 3 audit reports produced. Details of Burnley Council 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 – 13 against an annual target of 22 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 Manager along with legal officers continue to review and co-ordinate action to prepare the Council for compliance with new Data Protection regulations. These will become a requirement at the end of May 2018.

8. The Internal Audit Manager has completed and attained the General Data Protection Regulation Practitioner Certificate. He is also now the Data Protection Officer for the Council.
9. As in the previous year, Internal Audit have committed to assisting the remainder of Finance to produce the 2017/18 Statement of Accounts. The Internal Audit team assisted in delivering a much earlier audited 2016/17 Statement of Accounts; this included contributing to the all member workshop on Statement of Accounts. These were approved by this committee in July rather than as previous years in September.
10. Work is being undertaken to update the Strategic Risk Register to update it for the 2018/19 Strategic Plan and Service and Personnel changes. This will then be presented to this committee at the next committee meeting.
11. As reported at the last meeting the work on the Annual Governance Statement 2017 18 has started. A sample of the new format AGS is provided in Appendix 3.

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

12. None

#### **POLICY IMPLICATIONS**

13. None

#### **DETAILS OF CONSULTATION**

14. None

#### **BACKGROUND PAPERS**

15. None

#### **FURTHER INFORMATION**

**PLEASE CONTACT:**

**Nadeem Ukadia (Senior Auditor) Ext 3150**

**ALSO:**

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

**Summary of Audit reports Issued Quarter 3 2017/18**

Audit	Service	Audit Purpose	Audit Opinion	Key Actions Agreed	Implementation Detail	Score
Website Management	Information Technology Services	To provide assurance that controls in the management of the Council's website are effective.	The internal controls managing the Council's website operate to mitigate risks and are effective in doing this.	Review list of website editors for continued requirement. Update and identify deadlinks.	List of editors are under review, working in conjunction with services. Online tools are being used to identify and correct deadlinks.	2
Asset Control	Green Spaces and Amenities	To review and comment on the adequacy of asset control within Green Spaces and Amenities.	Controls of assets is effective. Completion of inventory will increase level of assurance.	Remind officers of purchasing system for ordering goods. Mark all acquired equipment and ensure these are recorded in an inventory	Officers reminded of purchasing system. Inventory to be completed after Hand Arm Compliance testing.	2

**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.

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Audit	Started	Report Issued	Audit Score
<b>Corporate</b>			
Annual Governance Statement	✓	✓	NA (Satisfactory)
Governance of Partnerships			
Charities			
J W Shaw	✓	✓	1
Mayor's Charity	✓	✓	1
Burnley Accorn Fund	✓	✓	1
Stocks Massey	✓	✓	1
Debts Write-Off	✓		
Strategic Partner Performance Indicators			
Regulation	✓	✓	2
<b>Finance</b>			
Benefits Calculation Check	✓		
Payment of Benefits	✓		
Bank Reconciliation			
Final Accounts	✓		
Payroll			
Budget Monitoring			
Council Tax			
General Ledger			
Creditors			
Payroll			
Income Management			
Treasury Management	✓	✓	1

Audit	Started	Report Issued	Audit Score
<b>Regeneration &amp; Planning Policy</b>			
Burnley Indoor Market	✓	✓	2
<b>Housing and Development Control</b>			
Selective Licensing	✓		
<b>Information Governance</b>			
Data Protection			
iWorld – Application Control	✓		
Website	✓	✓	2
<b>Green Spaces</b>			
Cemetary and Crematorium	✓		
Asset Control	✓	✓	2
<b>Governance, Law, Property and Regulation</b>			
Elections			
County	✓	✓	1
Parliamentary	✓	✓	1
<b>External Clients</b>			
Burnley Leisure – Service Level Agreement	✓	✓	-

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# Annual Governance Statement 2017/18

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## Introduction

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### 1. Scope and Responsibility

- 1.1 Burnley Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Burnley Borough Council has also a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 1.2 In discharging this overall responsibility, Burnley Borough Council is responsible for putting in place proper arrangements for the governance of its affairs; facilitating the effective exercise of its functions, which includes arrangements for the management of risk.
- 1.3 Burnley Borough Council has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the CIPFA<sup>1</sup>/SOLACE<sup>2</sup> Framework *Delivering Good Governance in Local Government*. A copy of the code is on our website at:

[http://www.burnley.gov.uk/sites/default/files/Changes\\_to\\_the\\_Constitution\\_Code\\_of\\_Corporate\\_Governance.pdf](http://www.burnley.gov.uk/sites/default/files/Changes_to_the_Constitution_Code_of_Corporate_Governance.pdf)

Or can be obtained from:

Governance, Law, Property and Regulation  
Burnley Borough Council  
Town Hall  
Manchester Road  
Burnley  
BB11 9SA.

- 1.4 This statement explains how Burnley Borough Council has complied with the Code and also meets the requirements of regulation 6(1)[a] of the Accounts and Audit (England) Regulations 2015, which requires all relevant bodies to prepare an Annual Governance Statement.

### 2. The Purpose of the Governance Framework

- 2.1 The Governance Framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads its communities. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.
- 2.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Burnley Borough Council's policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised, and to manage them efficiently, effectively and economically.

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<sup>1</sup> Chartered Institute of Public Finance and Accountancy

<sup>2</sup> Society of Local Authority Chief Executives

2.3 The Governance Framework has been in place at Burnley Borough Council for the year ended 31st March 2018 and up to the date of approval of the Annual Statement of Accounts.

### 3. The Governance Framework

3.1 The key elements of the Council's governance arrangements are outlined in the Local Code of Corporate Governance. Some of these features of the Governance Framework are explained in the following paragraphs.

3.2 The **Strategic Plan** sets out the contribution we will make to enabling communities in Burnley to thrive now and in the future. The Strategic Plan is linked to the revenue and capital budget, ensuring that the aspirations in the plan are realistic in the context of the funding constraints placed on the Council. The Strategic Plan is reviewed annually. The review takes account of **feedback** from surveys conducted with the public in Burnley and through the Citizen's Panel.

3.3 Delivery of the Strategic Plan is supported by **Service Plans** and individual's **Performance Development Reviews**. These include competencies, targets and, where appropriate, service standards against which service quality and improvement can be measured. Officers attend staff conferences and participate in job chats amongst other means to keep informed of organisational and service development. This is also another opportunity for staff to voice opinion and advice on issues.

3.4 Burnley Borough Council's **Constitution** establishes the roles and responsibilities for members of the Executive, Regulatory and Standards Committees, together with officer functions. It includes the Scheme of Delegation, codes of conduct and protocols for member / officer relations. The Constitution is regularly reviewed to ensure that it continues to be fit for purpose.

3.5 The Constitution also contains **procedure rules** including, Standing Orders and Financial Procedure Rules that define how decisions are taken and where authority rests for decision making. The **statutory roles** of Head of Paid Service, Chief Finance Officer and Monitoring Officer are described together with their contributions to provide robust assurance on governance and that expenditure is lawful and in line with approved budgets and procedures. The influence and oversight exerted by the Head of Paid Service (the Chief Executive) and the Chief Finance Officer (Head of Finance) is backed by the post-holders' membership of the Management Team.

3.6 The **Chief Financial Officer** (CFO) has responsibility for the proper administration of the Council's financial affairs. This includes responsibility for maintaining and reviewing Financial Procedure Rules to ensure they remain fit for purpose and submitting amendments to Full Council for approval. The Chief Financial Officer is also responsible for reporting, where appropriate, breaches of the Rules to the Executive and/or the Council. The Chief Financial Officer reports directly to the Chief Operating Officer.

3.7 The role of the CFO has been defined by CIPFA in its document titled, 'the role of the chief financial officer, in Local Government'. The Council's financial management arrangements conform with these governance requirements and this is explained in the constitution.

3.8 The Head of Finance fulfils the role of **Head of Internal Audit**. This includes championing best practice and assessing adequacy in governance, management and risk, providing an opinion on these aspects, and leading an effective Internal Audit service.

3.9 The **Full Council** and the **Executive** are the decision making bodies of the Council. **Regulatory Committees** including Development Control and Licensing Committees

undertake decisions delegated to it under the Constitution. The Council's **Scrutiny Committee** works to improve service delivery and to review the Executive decisions. The **Audit and Standards Committee** oversees the review of the Council's audit and governance arrangements and the production of this statement.

- 3.10 In recognition of the exposure to fraud, the Council has adopted an **Anti-Fraud Bribery and Corruption Policy** which is part of the Constitution. This is relevant to all members, officers and its partners. Fraud risks are considered as part of strategic and service risk management. Fraud awareness training is made available to further raise awareness of the matter.
- 3.11 To complement the anti-fraud policy, Council has a **complaints procedure** and a **whistle-blowing policy** that is maintained and regularly reviewed, which provide the opportunity for members of the public and staff to raise concerns when they believe that appropriate standards have not been met. The **Audit and Standards Committee** is responsible for overseeing the investigation of complaints against members and promotion and maintenance of high standards of conduct in the authority.
- 3.12 The Council has an embedded **risk management** function. The Risk Management Policy and Strategy are reviewed regularly. The Risk Management Group draws together risk issues from across the authority to ensure that issues and concerns are shared and that a consistent approach is adopted throughout the organisation.
- 3.13 **Training** needs of members and officers are identified through appraisal and review processes. Appropriate training is made available to staff to ensure that individuals are able to undertake their present role effectively and that they have the opportunity to develop to meet their and the Council's needs. All newly elected members undertake an induction programme so that they can make an effective contribution to the work of the authority. Specific committee training is given to members so that they may discharge their responsibilities more effectively along with general member development training such as on finance and conduct. The Council retained the Investors in People (IIP) Gold Standard and continues to undertake reviews to maintain this excellence.
- 3.14 The Council is committed to **partnership** working. The Burnley Action Partnership brings together representatives from across the community and sectors. This provides a community plan on which the strategy of the Council is based. The Strategic Partnership with Liberata and Burnley Leisure will ensure that vital services will continue to be delivered in these financially challenging times. The **Burnley Bondholders** work to promote Burnley in the region and wider area.
- 3.15 The main areas of the Council's Governance Framework, and key evidence of delivery, are set out below, under the headings of the seven **CIPFA/SOLACE Core Principles of Good Governance**.

## Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of the law.

- Codes of Conduct exist for both officers and members.
- Statutory Officers are in post:
  - the Chief Executive as Head of Paid Service,
  - the Head of Governance, Law, Property and Regulation as the Monitoring Officer
  - the Head of Finance as the Section 151 Officer.
- The Constitution and Scheme of Delegation define the roles and responsibilities of officers and members, and sets out the rules on how the Council conducts its business
- TEAM values are in place.

## Ensuring openness and comprehensive stakeholder engagement.

- Council meetings are conducted in public, decisions have been properly recorded and are in the public domain
- Local Plan
- Padiham Artwork
- Citizen Survey
- Engagement with the business community: Burnley Bondholders
- Partnership boards for the strategic partners:
  - Liberata
  - Irhaser

## Defining outcomes in terms of sustainable economic, social and environmental benefits.

- The Strategic Plan is in place and is underpinned by Service Plans.
- Balanced Scorecards are used to monitor the achievement of stated outcomes.
- The Council makes best use of resources by always considering options for the way services are delivered.

## Determining the interventions necessary to optimise the achievement of intended outcomes.

- Balanced Scorecards exist to monitor progress on intended outcomes.
- Decision makers receive analysis of options to achieve intended outcomes. This includes risk analysis associated with making key decisions.
- The Council is continually reviewing how services are provided.

## Developing the entity's capacity, including the capability of its leadership and the individuals within it.

- Member training programmes are in place. Training during 2016/17 included guidance on the Statement of Accounts.
- Officer training is identified during Performance Development Reviews which is linked to the Service Plan.
- New officers receive corporate and service unit induction. Training is also provided to new members.
- Arrangements are in place to maintain the health and wellbeing of the workforce.
- There are regular meetings between the Chief Executive and the Leader of the Council. Similar meetings take place between Heads of Service and Executive Members.



### **Managing risks and performance through robust internal control and strong financial management.**

- There is a risk management framework in place that identifies and reports risk and how it is managed.
- The system on Internal Control is reviewed on an on-going basis by Internal Audit.
- The Head of Finance is responsible for the financial management of the council and is the Section 151 Officer.
- Robust budget monitoring arrangements for both capital and revenue with budget reporting to management team and members.
- The council has an appropriate anti-fraud and corruption culture.

### **Implementing good practices in transparency, reporting and audit to deliver effective accountability.**

- Information on the decision making process is readily available to all stakeholders.
- Internal Audit will review the internal control framework on an on-going basis, particularly the key financial systems.
- Internal Audit will provide an objective opinion on the internal control framework that was in place for 2016/17.
- External Audit (Grant Thornton) will review the arrangements that the Council has in place to secure value for money. This will also provide an opinion on the accuracy and completeness of the Statement of Accounts.

## The Effectiveness of the Governance Framework

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### 4. Review of Effectiveness

- 4.1 Burnley Borough Council has responsibility for conducting, at least annually, a review of the effectiveness of its Governance Framework, including the system of internal control. The review of effectiveness is informed by the work of the Management Team, who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report and also by the findings and reports issued by the external auditors.
- 4.2 Burnley Borough Council's Internal Audit section, via specific responsibility assigned to the Head of Internal Audit, is required to provide an annual independent and objective opinion to the Authority on its risk management, governance and control environment. The Head of Internal Audit's report for 2016/17 concluded that the Council's internal controls continue to operate effectively.
- 4.3 The review of compliance with the Governance Framework has involved:
- Heads of Service and key officers (Chief Finance Officer, Monitoring Officer and Health & Safety Officer) providing signed Assurance Statements to Management Team. These have been supported by a control and risk self-assessment questionnaire and were collated by Internal Auditors. Management Team considered these statements and also signed Assurance Statement from the Chief Operating Officer.
  - Liberata providing a signed Assurance Statement to the Chief Operating Officer.
  - Executive Members and Chair of Scrutiny completing a self-assessment questionnaire and providing a signed Assurance Statement to the Leader of the Council and Chief Executive.
  - Internal Audit completing a review of the corporate documents and evidence for the key elements of Governance and Internal Control. The Internal Audit Opinion (draft) is included as part of the consideration as are external audit reports etc.
  - A draft of the Annual Governance Statement is prepared and provided to Management Team.
  - An Annual Governance Statement is then provided to the Chief Executive and Leader to sign.
- 4.4 Governance arrangements continue to be regarded as fit for purpose in accordance with the Governance Framework. The review process has highlighted no significant issues.

### 5. Key Future Challenge

- 5.1 Burnley Council has recognised current and future financial challenges in its strategic risk register and medium term financial strategy. The authority will continue to meet these challenges as it has done in the past; taking steps to manage this by considering modernisation and rationalisation.

### 6. Action Taken to Address Previous Issues

- 6.1 No significant issues had been identified on the previous (2016/17) governance statement.

**7. Certification**

7.1 The Council has governance procedures that contain comprehensive systems, cultures and values by which it is controlled, and through which it engages with the community in a timely, inclusive, open, honest and accountable manner.

**Signed**.....  
Leader of the Council

**Signed**.....  
Chief Operating Officer

**Date 26 July 2017**

**Date 26 July 2017**

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## AUDIT & STANDARDS COMMITTEE

### Work Programme 2017/18

<u>DATE OF MEETING</u>	<u>AREAS TO BE CONSIDERED</u>
26 <sup>th</sup> July 2017	<ul style="list-style-type: none"> <li>• <i>Annual Governance Statement 2016/17</i></li> <li>• <i>Grant Thornton – Audit Findings Report 2016/17</i></li> <li>• <i>Statement of Accounts 2016/17</i></li> <li>• <i>Internal Audit Charter and Plan 2017/18</i></li> <li>• <i>Internal Audit Opinion 2016/17</i></li> <li>• <i>Outside Body Report (Private)</i></li> <li>• <i>Work Programme 2017/18</i></li> </ul>
20 <sup>th</sup> September 2017	<ul style="list-style-type: none"> <li>• <i>Internal Audit Progress Report (Quarter One) 2017/18</i></li> <li>• <i>Partnership Governance and Monitoring Arrangements (Liberata Contract) (moved to January meeting)</i></li> <li>• <i>PSIAS External Peer Review Report</i></li> <li>• <i>External Auditor Appointment Arrangments Update</i></li> <li>• <i>Annual Audit Letter</i></li> <li>• <i>External Audit Progress Report</i></li> <li>• <i>Work Programme 2017/18</i></li> </ul>
10 <sup>th</sup> January 2018	<ul style="list-style-type: none"> <li>• <i>Standards Complaints Update</i></li> <li>• <i>Strategic Risk Register 2017/18</i></li> <li>• <i>Fraud Risk Assessment 2017/18</i></li> <li>• <i>Annual Governance Statement 2017/18 Arrangements</i></li> <li>• <i>Annual Accounts 2017/18 Arrangements</i></li> <li>• <i>Internal Audit Progress Report Q2</i></li> <li>• <i>Work Programme 2017/18</i></li> </ul>
7 <sup>th</sup> March 2018	<ul style="list-style-type: none"> <li>• <i>Standards Complaints Update</i></li> <li>• <i>Draft Annual Governance Statement 2017/18</i></li> <li>• <i>Internal Audit Progress Report Quarter Three 2017/18</i></li> <li>• <i>Risk Management Review 2017/18</i></li> <li>• <i>Internal Audit Plan 2017/18</i></li> <li>• <i>External Audit Plan 2017/18</i></li> <li>• <i>Partnership Governance and Monitoring Arrangements (Liberata Contract)</i></li> <li>• <i>Work Programme 2017/18</i></li> </ul>

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