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AUDIT AND STANDARDS COMMITTEE

Wednesday, 16th January, 2019
6.30 pm

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AUDIT AND STANDARDS COMMITTEE

BURNLEY TOWN HALL

Wednesday, 16th January, 2019 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.

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) *Complaint against a Member under the Council's Code of Conduct.* 9 - 10

To report the decision of the Audit and Standards Sub Committee Hearing Panel in relation to the conduct of Councillor Hosker, and to inform the Committee of Councillor Hosker's response to the sanctions imposed by the Hearing Panel.

8) *External Audit Progress Report*

Report to follow.

9) *The External Auditors Certification Letter* 11 - 14

To receive the External Auditor's certification letter for housing benefit work.

10) *The Draft Audit Plan 2018/19* 15 - 30

To consider the External Auditor's draft Audit Plan for the year ending 31st March 2019.

11) *Final Accounts 2018/19 Arrangements* 31 - 50

To update members on the arrangements to date and the implication of the changes required for the Council ahead of the closure of the 2018/19 accounts. To seek approval of the accounting policies to be used in producing the Statement of Accounts; and to set a date for the accounts workshop for members.

12) *Annual Governance Statement Arrangements 2018/19* 51 - 54

To consider the proposed arrangements to provide assurance for the Annual Governance Statement 2018/19.

13) *Internal Audit 2018/19 Quarter 2 Progress Report* 55 - 62

To consider the work undertaken by Internal Audit for the period 1st July to 30th September 2018.

14) *Fraud Risk Assessment* 63 - 66

To consider the current fraud trends that affect the public sector.

15) *Strategic Risk Register 2018/19 Report* 67 - 90

To consider the current Strategic Risk Register.

16) *Work Programme* 91 - 92

To consider the Work Programme for the current year.

MEMBERSHIP OF COMMITTEE

Councillors

Councillor Paul Campbell (Chair)
Councillor Joanne Greenwood (Vice-Chair)
Councillor Bill Brindle
Councillor Dale Ferrier
Councillor Anne Kelly
Councillor Neil Mottershead
Councillor Ann Royle
Councillor Andrew Tatchell
Councillor Sue Graham

Co-opted Members

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

External Auditor

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

Published: Tuesday, 8 January 2019

AUDIT AND STANDARDS COMMITTEE

BURNLEY TOWN HALL

Wednesday, 19th September, 2018 at 6.30 pm

PRESENT

MEMBERS

Councillor Paul Campbell, In the Chair.

Councillors Bill Brindle, Dale Ferrier, Joanne Greenwood, Ann Royle, Andy Tatchell and Mark Townsend

OFFICERS

Ian Evenett	–	Internal Audit Manager
Imelda Grady	–	Democracy Officer

CO-OPTED MEMBERS

Councillor Kathryn Haworth	-	Parish representative
Paul Prior	-	Independent member

EXTERNAL AUDITORS

Mark Heap	–	Grant Thornton

13. Apologies

Apologies were received from Councillor Anne Kelly, Louise Gaskell and Gill Smith.

14. Minutes

The Minutes of the meeting held on 19th July 2018 were approved as a correct record and signed by the Chair.

15. Annual Audit Letter

The Committee received for information the Annual Audit letter for the year ending 31st March 18 which summarised the key findings of the audit.

Mark Heap from the external auditors explained that Committee had received a summary of the audit at its July meeting and this letter now confirmed those audit conclusions which demonstrated that the Council had in place proper arrangements to ensure economy, efficiency and effectiveness in the use of its resources and that no issues had been identified.

The external auditors thanked Council staff for their assistance and co-operations provided during the audit and for the timely manner in which working papers had been provided.

IT WAS AGREED

That the Annual Audit letter 2017/18 be noted.

16. External Auditor Appointment for Grant Claim 2018/19

The Internal Audit Manager present the report which explained that the Housing Benefit Subsidy Grant claim was no longer automatically assigned to the Council's external auditor and that there was now a requirement to go out to tender for the work.

The Council's management team had considered the time frame, the expected value of the work and had undertaken market testing suitable to a single year's appointment in line with its standing orders for contracts and had appointed Grant Thornton for one year for the 2018/19 audit. Officers would then review this arrangement in early 2019 with an aim to appoint over a longer period.

Councillor Townsend asked about the financial implications which he would have expected to have been detailed in the report. The Internal Audit Manager said that the external auditors were currently preparing the grant claim for 2017/18 which would be finalised by November and that costs for 2018/19 could vary depending on the audit findings but that it would be in the region of £10k.

IT WAS AGREED:

That the report be noted.

17. Internal Audit Progress Report

The Committee received information about the work undertaken by Internal Audit for the period 1st April to 30th June 2018.

The report detailed the recent staffing changes which had led to a delay in the audit plan for 2018/19. Audits which had not been completed during the 2017/18 financial year had been carried over and would be combined into 2018/19 plan.

Four audits had been completed: the annual audit opinion on Burnley Leisure, the annual governance statement and statement of accounts 2017/18 and an audit of the May 2018 election.

The Internal Audit Manager had been appointed as the Council's Data Protection Officer in line with the General Data Protection Regulation (GDPR) and Data Protection Act 2018.

A discussion took place on GDPR and the mechanisms for dealing with any data breaches. The Internal Audit Manager said that the Executive would receive information about any serious data breaches via the Head of Policy and Engagement. If there were any internal control issues identified then this Committee could be asked to consider any risks identified.

IT WAS AGREED:

That the report be noted.

18. Regulation of Investigatory Powers Act - Office of Surveillance Commissioners Inspection and Annual Return

The Committee received an update of authorisations issued under the Regulation of Investigatory Powers Act 2000(RIPA) and the outcome of the latest inspections by the Office of Surveillance Commissioners (OSC) which ensured the Council's policies and procedures were operated in a lawful manner.

The report had been brought to Committee following a recommendation made by the OSC that reports on RIPA activity should be made periodically to members.

The report confirmed that there had been no surveillance activity necessitating authorisation in the 2017/18 financial year.

A discussion took place on the remit of RIPA which regulated the Council's use of directed surveillance to prevent and detect serious criminal activity.

IT WAS AGREED:

That the report be noted.

19. Work Programme

The work programme for 2018/19 was noted.

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ITEM NO	[AgendaItem]

COMPLAINT AGAINST MEMBER UNDER COUNCIL'S CODE OF CONDUCT

REPORT TO AUDIT AND STANDARDS COMMITTEE

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DATE	**16/01/2019**
PORTFOLIO	**Councillor Sue Graham**
REPORT AUTHOR	**Catherine Waudby**
TEL NO	**01282 477198**
EMAIL	**cwaudby@burnley.gov.uk**

PURPOSE

1. To report the decision of the Audit and Standards Sub Committee Hearing Panel in relation to the conduct of Councillor Hosker, and to inform the Committee of Councillor Hosker's response to the sanctions imposed by the Hearing Panel

RECOMMENDATION

2. That the Committee notes the decision of the Hearing Panel and the subsequent refusal and failure of Councillor Hosker to comply with the sanctions imposed by the Hearing Panel.

3. That the Committee notes the limited sanctions available to the Hearing Panel when dealing with Code of Conduct matters, and the inability to impose any additional restrictions to deal with non – compliance with its recommendations, and to consider whether the Committee should direct the Council to write to the Minister of Housing, Communities and Local Government to advise him that the sanctions available for Councillors who fail to comply with the Code of Conduct are inadequate.

REASONS FOR RECOMMENDATION

4. The Committee is charged with promoting and maintaining high standards of conduct by Members, Co – opted members and employees of the Council. The determination of complaints about members is delegated to the Audit and Standards Sub Committee, and it is appropriate to report the outcome of the Hearing to Committee to determine what further action should be taken.

SUMMARY OF KEY POINTS

5. On 27th September 2018 the Audit and Standards Sub Committee Hearing Panel considered an allegation that Councillor Hosker had breached the Code of Conduct for Members by causing or permitting the posting of particular footage on the Councillor Hosker County and Borough Councillor Facebook page.

6. Following a full hearing the Sub Committee determined that Councillor Hosker had breached the Code of Conduct for Members, as a result of the footage which was of an explicit and offensive anti – islamic nature and was likely to offend fair minded people.

The Sub Committee also found that the action could reasonably be regarded as bringing the office of Councillor or the Council into disrepute, and was not conduct that was to be reasonably expected of a serving local councillor. It also appeared that Councillor Hosker was endorsing the content of the video footage. The Sub Committee also determined that the failure to check facebook posts/pages regularly was a failure by Councillor Hosker to take full responsibility for matters within his control and showed a disregard for an earlier local resolution which had required him to personally manage his Councillor Facebook page rather than allow third parties access to it.

7. The Hearing Panel recommended the following
(i) that Councillor Hosker receive social media and data protection training with three months of the hearing
(ii) the re- iteration of the previous instruction that he solely managed his Facebook pages and did not share his passwords with anyone
(iii) that the Council revisit the availability of sanctions to a Hearings Panel, specifically 15.4 which referred to Group Leaders responsibilities.

8. Following the hearing the Council identified appropriate training for Councillor Hosker to attend and he was asked to provide his availability. Councillor Hosker responded by email on 16th November 2018 to say that he did not need the training and would not be told to go. It has also been reported in the local paper that Councillor Hosker is refusing to attend any training.

9. There are no additional sanctions available to deal with this situation. If the Committee is minded to it can direct Officers to write to the Minister of Housing, Communities and Local Government to inform him that the sanctions available against members where they have breached the Code of Conduct are inadequate.

FINANCIAL IMPLICATIONS AND BUDGET PROVISION

10. None

POLICY IMPLICATIONS

11. None

DETAILS OF CONSULTATION

12. None

BACKGROUND PAPERS

13. Decision Notice of Audit and Standards Sub Committee Hearing Panel of 27th September 2018.

FURTHER INFORMATION
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An instinct for growth™

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8 January 2019

Dear Asad

Certification work for Burnley Borough Council for year ended 31 March 2018

We are required to certify the Housing Benefit subsidy claim submitted by Burnley Borough Council ('the Council'). This certification typically takes place six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

The Local Audit and Accountability Act 2014 gave the Secretary of State power to transfer Audit Commission responsibilities to other bodies. Public Sector Audit Appointments (PSAA) took on the transitional responsibilities for HB COUNT issued by the Audit Commission in February 2015.

We have certified the Housing Benefit subsidy claim for the financial year 2017/18 relating to total subsidy claimed of £31.2 million. Further details are set out in Appendix A.

There were a number of issues from our certification work which we wish to highlight for your attention.

- Initial testing identified one error (incorrect treatment of Widow's Supplementary Pension). No such error had been identified in the previous year. Extended testing in this area identified no further errors of this nature, but three other errors were identified (one relating to incorrect treatment of carers allowance and two where the War Disablement Pension had been input incorrectly).
- There were eight errors arising from extended testing on other areas that we carried out on this year's subsidy return as a result of errors identified in the previous year. Six of these relate to incorrect classification of overpayments, and two relate to incorrect calculation of weekly earnings.

The extrapolated financial impact of the errors on the claim, which we have reported to the DWP, was relatively insignificant to the total subsidy receivable.

Due to the errors identified the claim was qualified, and we reported our findings to the DWP. The DWP may require the Council to undertake further work or provide assurances on the errors we have identified.

The original scale fee for 2017/18 for the Council was based on the final 2015/16 certification fees, reflecting the amount of work required by the auditor to certify the Housing Benefit subsidy claim that year. The indicative scale fee set by PSAA for the Council for 2017/18 was £6,732, however the final fee has been determined as £9,675. This is set out in more detail in Appendix B.

Yours sincerely

Grant Thornton UK LLP

Appendix A - Details of claims and returns certified for 2017/18

Claim or return	Value	Amended?	Amendment value	Qualified?	Comments
Housing benefits subsidy claim	£31,174,159	Yes	£31,174,482	Yes	See below

Findings from certification of housing benefits subsidy claim

Initial testing

Our initial testing of a sample of 30 individuals' benefit claims identified one error:

- 1 case where Widow's Supplementary Pension had been incorrectly treated leading to misclassification between cells.

Extended testing

Under the HB COUNT approach, we are required to carry out additional testing on the area identified above and also in areas where errors were identified in the previous year (2016/17). These are set out below:

- Additional testing of 40 cases for classification of Rent Allowance eligible overpayments identified six cases (total value £498.41) of misclassified overpayments. Five of these related to overpayments that had been recorded as cell 114 rather than cell 113, and one related to overpayments that had been recorded as cell 114 rather than cell 112.
- Additional testing of 40 Rent Allowance cases for calculation of relevant weekly earnings identified two cases (total value £2,400.64) where the average weekly earnings had been incorrectly calculated.
- Additional testing of 40 Rent Allowance cases for correct award of carers premium identified no further errors of this nature.
- Additional testing of 16 Modified Cases for correct treatment of Widow's Supplementary Pension identified no further errors of this nature, however identified two cases (total value £914,44) where the incorrect War Disability Pension figure had been used. In addition, one case (total value £2,939.91) was identified where carers allowance had been incorrectly treated.

Observations

We have no other observations to report.

Other matters

The Authority uses the Northgate benefits software. The software supplier provides the Benefits Subsidy Balancing Workbook to reconcile benefit granted per the benefit software to benefit paid per the benefit software.

This includes a difference of £7.41 on the "PTEN OP" tab of the balancing workbook, which has led to an under claiming of subsidy by the same amount. We reported a similar issue to you in the previous year.

Appendix B: Fees for 2017/18 certification work

Claim or return	2016/17 fee (£)	2017/18 indicative fee (£)	2017/18 actual fee (£)	Variance (£)	Explanation for variances
Housing benefits subsidy claim (BEN01)	£9,675	£6,732	£9,675	£2,943	Additional 40+ testing has taken place in 2017/18 in line with the additional testing in 2016/17.
Total	£9,675	£6,732	£9,675	£2,943	

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This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.
This draft has been created from the template dated DD MMM YYYY

External Audit Plan

Year ending 31 March 2019

Burnley Borough Council
8 January 2019

Contents

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Your key Grant Thornton team members are:

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Introduction & 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 Authority') 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 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 :

- Authority'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 Authority 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 Authority 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 Authority is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Authority'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 the pension fund net liability • Valuation of land and buildings 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 £1.208m (PY £1.210m), which equates to 2% of your prior year gross expenditure. 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 £0.060m (PY £0.061m).
Value for Money arrangements	Our risk assessment regarding your arrangements to secure value for money has identified the following VFM significant risks: • Financial sustainability – reviewing the Council's medium term financial position • Major capital scheme developments – reviewing the Council's governance arrangements over such schemes.
Audit logistics	Our interim visit will take place in March and our final visit will take place in June and July. Our key deliverables are this Audit Plan and our Audit Findings Report. Our fee for the audit will be £38,937 (PY: £50,567) for the Authority, subject to the Authority meeting our requirements set out on page 11.
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..

Key matters impacting our audit

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External Factors

The wider economy and political uncertainty

Local Government funding continues to be stretched with increasing cost pressures, reduced central government grants and increased demand from residents. The economic uncertainty is further increased by Brexit. Britain leaving the European Union with no deal may impact national and local economies.

As with most local authorities, Burnley Borough Council continues to operate under significant financial pressures. The Medium Term Financial Strategy highlights the requirement to make £3.23 million of savings over the 3 year period to 2021/22.

Changes to the CIPFA 2018/19 Accounting Code

The most significant changes relate to the adoption of:

- IFRS 9 Financial Instruments which impacts on the classification and measurement of financial assets and introduces a new impairment model.
- IFRS 15 Revenue from Contracts with Customers which introduces a five step approach to revenue recognition.

Internal Factors

Regeneration and major capital developments

The Council has approved proposals and financial business cases for significant capital schemes to be carried out over the next 2 years.

These schemes are in support of the Council's 'Place and Prosperity' objective as part of the Town Centre and Canalside Masterplan.

Such schemes are complex and require good governance arrangements to monitor and review potential risks as these schemes develop.

New audit methodology

We will be using our new audit methodology and tool, LEAP, for the 2018/19 audit. It will enable us to be more responsive to changes that may occur in your organisation and more easily incorporate our knowledge of the Authority into our risk assessment and testing approach.

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 (vfm) conclusion.
- We will consider whether your financial position leads to material uncertainty about the going concern of the Authority and will review related disclosures in the financial statements.

- We will keep you informed of changes to the financial reporting requirements for 2018/19 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 2018/19 CIPFA Code.

- As part of your work on your vfm conclusion we will review how members are kept informed of key risks and issues to enable them to make informed decisions in this key area

- You will see changes in the terminology we use in our reports that will align more closely with the ISAs
- We will ensure that our resources and testing are best directed to address your risks in an effective way.

Significant risks identified

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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 recognition risk	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.	We have considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority. We have determined that the risk of fraud arising from revenue recognition can be rebutted because : • there is little incentive to manipulate revenue recognition • the culture and ethical frameworks of local authorities, including Burnley Borough Council, mean that all forms of fraud are seen as unacceptable • income streams are primarily derived from grants or formula based income from central government and tax payers; and • opportunities to manipulate revenue recognition are therefore very limited
Management over-ride of controls	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. 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.	We will: • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified

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Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings	The Authority revalues its land and buildings on a rolling programme basis over a five year period. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£56.6 million) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority 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 We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.	We will: • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • write to the valuer to confirm the basis on which the valuation was carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding • test revaluations made during the year to see if they have been input correctly into the Authority's asset register • 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.
Valuation of the pension fund net liability	The Authority'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. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£55.3 million) in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.	We will: • update our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • 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; • 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; and • obtain assurances from the auditor of Lancashire County 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.

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 Report in July 2019.

Other matters

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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 to check that they are consistent with the financial statements on which we give an opinion and consistent with our knowledge of the Authority.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued 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 2018/19 financial statements, consider and decide upon any objections received in relation to the 2018/19 financial statements;
  - Issue of a report in the public interest or written recommendations to the Authority under section 24 of the Act, copied to the Secretary of State.
  - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
  - 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 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 Authority'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

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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

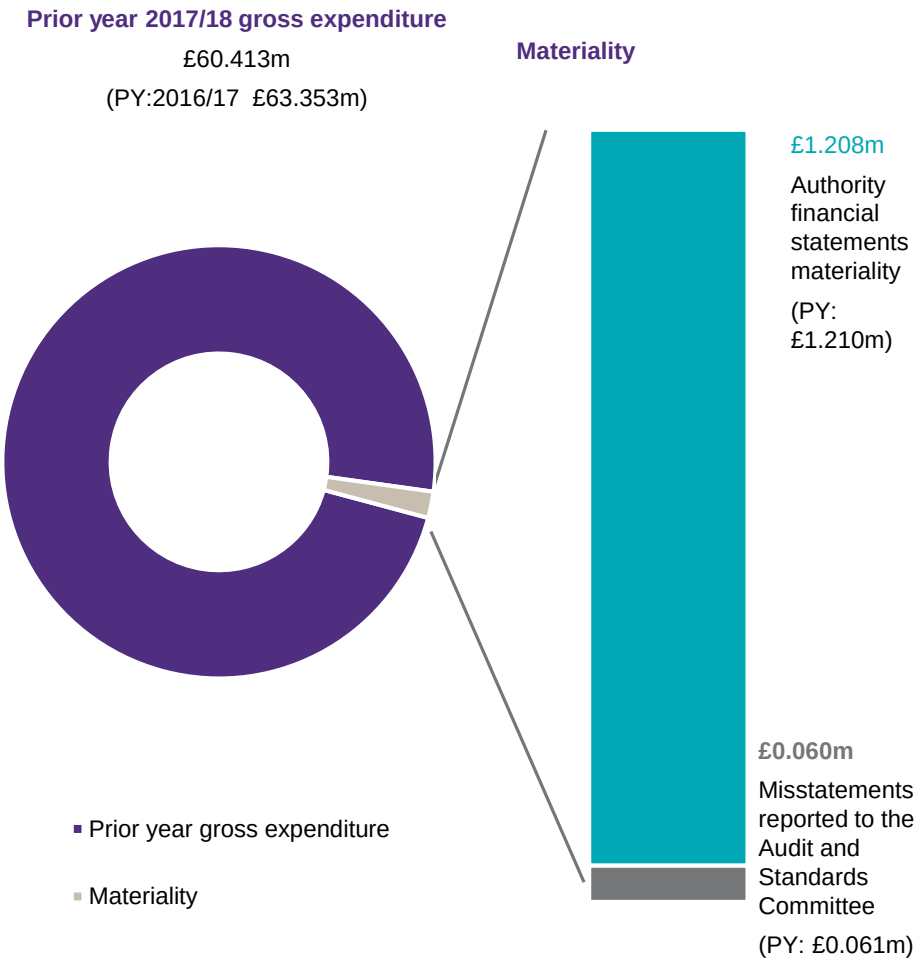
We have determined financial statement materiality based on a proportion of the gross expenditure of the Authority for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £1.208m (PY £1.210m), which equates to 2% of your prior year gross 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 £6,000 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 Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.060m (PY £0.061m).

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

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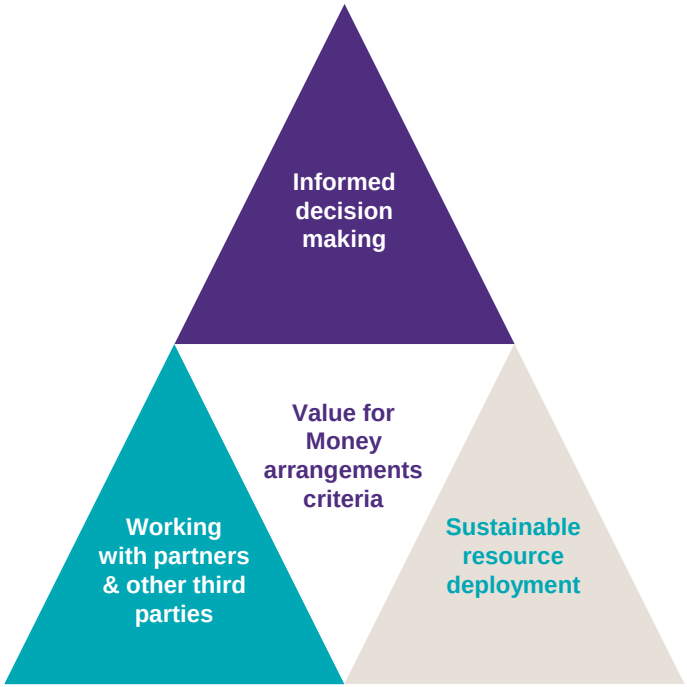
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Local Government bodies, auditors are required to give a conclusion on whether the Authority has proper arrangements in place to secure value for money.

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:



Significant VFM risks

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

Financial sustainability - Medium term financial position

As with most authorities, Burnley Borough Council continues to operate under significant financial pressures. The Medium Term Financial Strategy highlight the requirement to make £3.23 million of savings over the 3 year period to 2021/22. This is comparable with over 21% of the Council's Revenue Budget.

Savings amounting to just over £1.23 million have been approved to date, however almost £2m of savings have yet to be identified and approved.

We will continue to monitor the Authority's financial position through regular meetings with senior management and consider how the Authority manages its budget. We will continue to assess progress in the identification and delivery of the future savings required as identified in the current iteration of the MTFS.

Major capital scheme developments

The Council has approved proposals and financial business cases for significant capital schemes to be carried out over the next 2 years.

These schemes are in support of the Council's 'Place and Prosperity' objective as part of the Town Centre and Canalside masterplan.

Such schemes carry significant inherent risks and require robust governance arrangements in place to ensure that appropriately informed decisions are made and risks are carefully managed.

We will review the governance arrangements the Council has in place to support appropriately informed decision making and to monitor and manage risks associated with such schemes.

Audit logistics, team & fees

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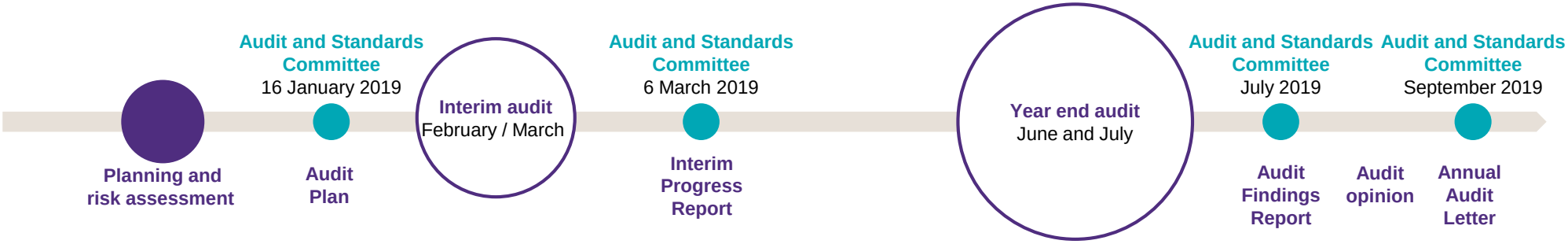

Mark Heap, Engagement Lead

Responsible for overall quality control, accounts opinions, final authorisation of reports, risk communication with management and the Audit and Standards Committee.

Marianne Dixon, Audit Manager

Responsible for overall audit management, consideration of VFM work, qualify assurance of audit work and outputs, communication with management and Audit and Standards Committee.

Aaron Gouldman, Audit Incharge

Responsible for management of audit fieldwork including accounts, coordination of work completed by audit assistants, coordination of work of specialists and advisors.

Audit fees

The planned audit fees are £38,937 (PY: £50,567) for the financial statements audit completed under the Code, which are inline with the scale fee published by PSAA. £9,750 of fees are also planned for the Housing Benefit certification work, which constitutes non Code work by PSAA. In setting your fees, we have assumed that the scope of the audit, and the Authority 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.

Any proposed fee variations will need to be approved by PSAA.

Early close

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Meeting the 31 July audit timeframe

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

In 2017/18 Burnley Borough Council was successful in delivering a good quality set of financial statements well in advance of the deadline of 30 May. The Council's prompt closedown timetable and experienced and knowledgeable finance staff enabled the audit to be conducted efficiently and well within the audited accounts deadline of 31 July.

To help continue this achievement and recognising the key change in staffing of the Council's finance team, 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 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 10). Where the elapsed time to complete an audit exceeds that agreed due to a client not meetings 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.

Independence & non-audit services

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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.

We confirm that we have implemented policies and procedures to meet the requirements of 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 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies. Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority. The following other services were identified.

Service	£	Threats	Safeguards
Audit related			
Housing Benefit (Scheduled August – November 2019)	£9,750*	Self-Interest (because this could be a recurring fee)	The level of this fee (even if it were to become recurring) taken on its own is not considered a significant threat to independence as the fee for this work is £9,750 in comparison to the total fee for the audit of £38,937 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level
Certification of RGF (Weavers Triangle) return (completed January 2019)	£2,950	Self-Interest (because this has been 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 £2,950 in comparison to the total fee for the audit of £38,937 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.
Non-audit related			
None			

* Estimated based on current understanding of HBCOUNT work required for 2018/19

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Authority's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

Appendices

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A. Audit Approach

Appendix A. Audit approach

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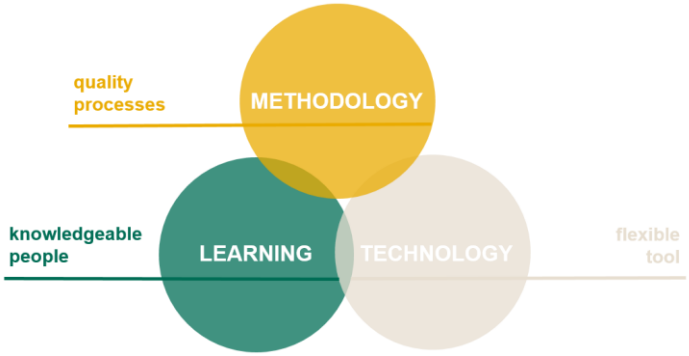
Use of audit, data interrogation and analytics software

LEAP

Audit software

- A globally developed ISA-aligned methodology and software tool that aims to re-engineer our audit approach to fundamentally improve quality and efficiency
- LEAP empowers our engagement teams to deliver even higher quality audits, enables our teams to perform cost effective audits which are scalable to any client, enhances the work experience for our people and develops further insights into our clients' businesses
- A cloud-based industry-leading audit tool developed in partnership with Microsoft



Inflo

Cloud based software which uses data analytics to identify trends and high risk transactions, generating insights to focus audit work and share with clients.

REQUEST & SHARE
- Communicate & transfer documents securely
- Extract data directly from client systems
- Work flow assignment & progress monitoring

ASSESS & SCOPE
- Compare balances & visualise trends
- Understand trends and perform more granular risk assessment

VERIFY & REVIEW
- Automate sampling requests
- Download automated work papers

INTERROGATE & EVALUATE
- Analyse 100% of transactions quickly & easily
- Identify high risk transactions for investigation & testing
- Provide client reports & relevant benchmarking KPIs

FOCUS & ASSURE
- Visualise relationships impacting core business cycles
- Analyse 100% of transactions to focus audit on unusual items
- Combine business process analytics with related testing to provide greater audit and process assurance

INSIGHTS
- Detailed visualisations to add value to meetings and reports
- Demonstrates own performance and benchmark comparisons

IDEA

- We use one of the world's leading data interrogation software tools, called 'IDEA' which integrates the latest data analytics techniques into our audit approach
- We have used IDEA since its inception in the 1980's and we were part of the original development team. We still have heavy involvement in both its development and delivery which is further enforced through our chairmanship of the UK IDEA User Group
- In addition to IDEA, we also other tools like ACL and Microsoft SQL server
- Analysing large volumes of data very quickly and easily enables us to identify exceptions which potentially highlight business controls that are not operating effectively

Appian

Business process management

- Clear timeline for account review:
  - disclosure dealing
  - analytical review
- Simple version control
- Allow content team to identify potential risk areas for auditors to focus on

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Grant Thornton

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ITEM NO	

Annual Accounts 2018/19 Arrangements

REPORT TO AUDIT AND STANDARDS COMMITTEE

DATE	**16 January 2019**
PORTFOLIO	**Resources & Performance Management**
REPORT AUTHOR	**Howard Hamilton-Smith**
TEL NO	**(01282) 475869 or 01282 425011 x3162**
EMAIL	**hhamilton-smith@burnley.gov.uk**

PURPOSE

1. To update the Audit and Standards Committee on the arrangements made to date and the implications of the changes required for the Council ahead of the closure of the 2018/19 accounts.
2. To seek approval for the accounting policies to be used in producing the Statement of Accounts as set out in Appendix 1.
3. To set a date for a final accounts workshop for Audit and Standards Committee Members to allow officers to present the 2018/19 Statement of Accounts and explain the findings and issues.

RECOMMENDATION

4. Note the report and arrangements that the Council is making in advance of the closure of accounts for the year 2018/19.
5. Approve the proposed accounting policies to be followed in producing the Statement of Accounts as shown in Appendix 1.
6. Confirm the date for the final accounts workshop which is provisionally set for 15 July 2019.

REASONS FOR RECOMMENDATION

7. The Council has a statutory duty to approve the accounts for 2018/19 by the 31 July 2019.
8. To ensure that the Council complies with requirements in relation to the Statement of Accounts.
9. To explain the actions being taken to minimise the risks to the final accounts process.

SUMMARY OF KEY POINTS

10. In 2017/18, the Council again successfully achieved the implementation of changes required by the Code of Practice on Local Authority Accounting in the UK leading to an unqualified audit opinion on the 2017/18 accounts. The draft Statement of Accounts was completed and authorised for publication on 17 May 2018. The 2018/19 accounts are to be produced under the Code of Practice on Local Authority Accounting in the UK for 2018/19 standards and will require similar detail and analysis. There are only a few changes to the disclosures within the accounts that are required in 2018/19. The deadline for completion this year is 31 May and the accounts have to be certified by 31 July.

11. **The changes affecting this Council are:**
    - Last years' successful exercise to declutter the Statement of Accounts should be undertaken again with a view to reducing the size of the Statement.
    - The accounting and treatment, together with the reporting requirements, resulting from the acquisition of two property fund investments during 2018/19.
    - Disclosures under IFRS9 – Accounting for financial instruments.
    - Minor changes to the way debtors and creditors are reported in the notes to the accounts.

12. **Preparation**

    Training
    - Preparation for the closure of 2018/19 accounts is to include both formal and informal training for staff in Finance which will again include examples of how to speed up the process of closure of accounts and the production of the statement of accounts.
    - Staff will attend formal training courses by the Council's auditors' Grant Thornton and have taken an active role in regular discussions among peer groups across Lancashire and the North West.
    - Once again this year, it is intended to give Members of the Audit and Standards Committee a training presentation to assist with their understanding of the accounts. A date has been provisionally set for 15 July 2019.

    Planning
    - The year-end closure memorandum will again be sent to Management Team, Heads of Service and various key officers of the Council and our colleagues in Liberata, giving details of the year end processes and timetable.

    Procedures & systems
    - Changes to procedures and systems in order to prepare the Council for the requirements of earlier closedown have been implemented during the last two years.

13. **Calculation of Impact**

    Updating Accounting Policies
    - The accounting policies have been reviewed. There are no significant changes and there is no material financial impact of adopting the changes. Appendix 1 shows the proposed accounting policies to be adopted in closing the accounts for 2018/19.

14. **Annual Governance Statement**
    - The formal statement that recognises, records and publishes a local authority's governance arrangements. It incorporates a review of its internal controls and assurance gathered from all parts of the Council. Further details are provided in a separate report to this Audit and Standards Committee meeting for approval and will then be brought back (and updated) to the July Committee meeting to consider alongside the Statement of Accounts. There are no significant changes in the requirements for the statement.

15. **Risks**
    The risks of non-compliance with the requirement to have a "fit for purpose" statement of accounts prepared by 31 May 2019 and reported to members with an unqualified audit opinion by 31 July 2019 are (not necessarily exhaustive):

    - Failure to have assets revalued by the date shown in the timetable. To mitigate this risk, officers have completed the great majority of this work in December 2018.
    - Key staff becoming unavailable during the closure process. Planning of staff availability will help mitigate the risk but this risk will be managed should the situation arise.
    - Failure to fully identify and incorporate the requirements of the 2018 Code. This is unlikely given the few changes from the 2017 Code.

FINANCIAL IMPLICATIONS AND BUDGET PROVISION

16. None

POLICY IMPLICATIONS

17. Changes to the Council's Accounting Policies.

DETAILS OF CONSULTATION

18. None

BACKGROUND PAPERS

19. 2018 Code of Practice on Local Authority Accounting in the UK.

20. Papers and publications held in Finance.

FURTHER INFORMATION

PLEASE CONTACT: **Howard Hamilton-Smith – Finance Manager**

ALSO: **Asad Mushtaq – Head of Finance & Property**

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Accounting Policies

I. GENERAL PRINCIPLES

The Statement of Accounts summarises the Council's transactions for the 2018/19 financial year and its position at the year-end of 31 March 2019. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code) supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

The accounts have been prepared on a going concern basis, under the assumption that the Council will continue in existence for the foreseeable future.

II. ACCRUALS OF EXPENDITURE & INCOME

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

III. CASH AND CASH EQUIVALENTS

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

IV. PRIOR PERIOD ADJUSTMENTS, CHANGES IN ACCOUNTING POLICIES AND ESTIMATES AND ERRORS

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

V. CHARGES TO REVENUE FOR NON-CURRENT ASSETS

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- Depreciation attributable to the assets used by the relevant service.
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.
- Amortisation of intangible assets attributable to the service.

The Council is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement. Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance (Minimum Revenue Provision (MRP)) by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

VI. COUNCIL TAX AND NON-DOMESTIC RATES

Billing authorities, such as Burnley Council, act as agents, collecting Council Tax and Non-Domestic Rates (NDR) on behalf of the major preceptors (including Government for NDR) and, as principals, collecting Council Tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (i.e. the Collection Fund) for the collection and distribution of amounts due in respect of Council Tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and Central Government share proportionately the risks and rewards that the amount of Council Tax and NDR collected could be less or more than predicted.

ACCOUNTING FOR COUNCIL TAX AND NDR

The Council Tax and NDR income included in the Comprehensive Income and Expenditure Statement is the Council's share of accrued income for the year. However, regulations determine the amount of Council Tax and NDR that must be included in the Council's General

Fund. Therefore the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the Council's share of the end of year balances in respect of Council Tax and NDR relating to arrears, impairment allowance for doubtful debts, overpayments and prepayments and appeals.

VII. EMPLOYEE BENEFITS

BENEFITS PAYABLE DURING EMPLOYMENT

Short-term employee benefits are those due to be settled wholly within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday entitlements are charged to revenue in the financial year in which the holiday absence occurs.

Full details of employee benefits paid during employment for senior officers are shown at Note xx.

TERMINATION BENEFITS

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the appropriate service or, where applicable , to the non-distributed costs line in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment of an officer.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

POST-EMPLOYMENT BENEFITS

Most employees of the Council are members of the Local Government Pension Scheme, administered by Lancashire County Council. It is accounted for as a defined benefits scheme providing retirement lump sums and pensions earned as employees working for the Council:

THE LOCAL GOVERNMENT PENSION SCHEME

The Local Government Pension Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Lancashire County Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement

benefits earned to date by employees, based upon assumptions about mortality rates, employee turnover rates and projected future earnings for current employees.

- Liabilities are discounted to their value at current prices, using a discount rate of x.x% (based upon the indicative rate of return on an AA corporate bond - not the highest quality AAA bond but nevertheless a "high grade" bond).
- The assets of the Lancashire County Pension Fund attributable to the Council are included in the Balance Sheet at their fair value – quoted securities at current bid price, unquoted securities by means of a professional estimate, unitised securities at the current bid price and property at market value.

The change in the net pensions liability is analysed into the following components:

- Service cost comprising:
  - Current service cost – the increase in liabilities as a result of years of service earned in the year and allocated to the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
  - Past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years. This is debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs.
  - Net interest on the net defined benefit liability (asset), i.e. net interest expense for the Council – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
- Remeasurements comprising:
  - The return on plan assets - excluding amounts included in net interest on the net defined benefit liability (asset) - charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
  - Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions - charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- Contributions paid to the Lancashire County Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits that are earned by employees.

VIII. EVENTS AFTER THE REPORTING PERIOD

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- Adjusting Events - those that provide evidence of conditions that existed at the end of the reporting period. The Statement of Accounts is adjusted to reflect such events.
- Non-adjusting Events – those that are indicative of conditions that arose after the reporting period. The Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

IX. FINANCIAL INSTRUMENTS

FINANCIAL LIABILITIES

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective rate of interest is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest), and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it is repaid. When a premium or discount has been incurred and paid in full by a grant from an external body it is accounted for in full in the year that the grant was received. The reconciliation of the amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instrument Adjustment Account in the Movement in Reserves Statement.

FINANCIAL ASSETS

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. There are three main classes of financial assets measured at:

- Amortised cost
- Fair value through profit or loss (FVPL), and
- Fair value through other comprehensive income (FVOCI).

FINANCIAL ASSETS MEASURED AT AMORTISED COST

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most financial assets held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

EXPECTED CREDIT LOSS MODEL

The Council recognises expected credit losses on all of its financial assets held at amortised cost either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the Council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:

- Instruments with quoted market prices – the market price
- Other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the Council can assess at the measurement date.
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
- Level 3 inputs – unobservable inputs for the asset.

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

X. GOVERNMENT GRANTS AND CONTRIBUTIONS

Whether paid on account, by instalments or in arrears, Government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- The Council will comply with the conditions attached to the payments, and
- The grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income and Expenditure (non-ring fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

XI. HERITAGE ASSETS

TANGIBLE AND INTANGIBLE HERITAGE ASSETS

The Council's Heritage Assets are held at Towneley Hall Art Gallery & Museum and Burnley Town Hall. The museum has seven collections of heritage assets which are held principally for their contribution to knowledge, understanding and appreciation of the Council's history and local area. Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed allowing the Council's heritage assets to be included on the Balance Sheet at their insured value where available.

Heritage assets are deemed to have an indefinite life, and therefore are not depreciated as the charge would be minimal and immaterial. Nevertheless, where there is evidence of physical deterioration, or doubts arise as to its authenticity, the value of the asset has to be reviewed.

XII. INTANGIBLE ASSETS

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from intangible asset to the Council.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably

as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

This Council does not have any internally generated assets.

Expenditure on the development of website is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

Intangible Assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service lines in the Comprehensive Income and Expenditure Statement. The useful lives and associated amortisation rates of computer software have been estimated at 5 years. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service lines in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater then £10,000) the Capital Receipts Reserve.

XIII. INVENTORIES AND LONG TERM CONTRACTS

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the FIFO/weighted average costing formula. Long-term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the consideration allocated to the performance obligations satisfied based on the goods or services transferred to the service recipient during the financial year.

XIV. INVESTMENT PROPERTY

Investment properties are those that are used solely to earn rentals and/or capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at measurement date. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

XV. JOINT OPERATIONS

Joint operations are arrangements where the parties that have joint control of the arrangements have rights to the assets and obligations for the liabilities relating to the arrangement. The activities undertaken by the Council in conjunction with other joint operators involve the use of the assets and resources of those joint operators. In relation to its interest in a joint operation, the Council as a joint operator recognises:

- Its assets, including its share of any assets held jointly
- Its liabilities, including its share of any liabilities incurred jointly
- Its revenue from the sale of its share of the output arising from the joint operation
- Its share of the revenue from the sale of the output by the joint operation
- Its expense, including its share of any expenses incurred jointly.

XVI. LEASES

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

THE AUTHORITY AS LESSEE

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, plant and equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

THE AUTHORITY AS LESSOR

Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether property, plant and equipment or assets held for sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve. When future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income. An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset. Where assets are acquired under operating leases the leasing rentals payable are recognised in the Comprehensive Income and Expenditure Statement on a straight line basis over the term of the lease.

XVII. OVERHEADS AND SUPPORT SERVICES

The cost of overheads and support services are charged to service segments in accordance with the Council's arrangements for accountability and financial performance.

XVIII. PROPERTY, PLANT AND EQUIPMENT

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as property, plant and equipment.

RECOGNITION

Expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

MEASUREMENT

Assets are initially measured at cost comprising:

- The purchase price
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-specific Grant Income and Expenditure line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement bases:

- Infrastructure, community assets and assets under construction – depreciated historical cost
- Dwellings - fair value, determined using the basis of existing use value for social housing (EUV-SH)
- Surplus asset – the current value measurement base is fair value, estimated at highest and best use from a market participants perspective
- All other assets – current value , determined as the amount that would be paid for the asset in its existing use (existing use value – EUV)

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value.

Where non-property assets have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value.

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Surplus or Deficit on the Provision of Services where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount is written down against that balance (up to the amount of the accumulated gains).
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

IMPAIRMENT

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

DEPRECIATION

Depreciation is provided for on all property, plant and equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain community assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

- Dwellings and other buildings - straight-line allocation over the useful life of the property as estimated by the valuer
- Vehicles, plant, furniture and equipment – a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer
- Infrastructure – straight-line allocation over 25 years

Where an item of property, plant and equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately if they have different economic useful lives. The minimum value for separate components has been set at £100k as it is believed that anything below this would result in a trivial impact on

the Council's accounts. However, the major components of land and buildings have already been separated for many years, with no depreciation being applied to the land element.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

DISPOSALS AND NON-CURRENT ASSETS HELD FOR SALE

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an asset held for sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on the Provision of Services. Depreciation is not charged on assets held for sale.

If assets no longer meet the criteria to be classified as assets held for sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as held for sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as assets held for sale.

When as asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether property, plant and equipment or assets held for sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line of the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. The receipt is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written off value of disposals is not a charge against council tax, as the cost of the non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

XIX. PROVISIONS AND CONTINGENT LIABILITIES

PROVISIONS

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council has an obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that the reimbursement will be received if the Council settles the obligation.

CONTINGENT LIABILITIES

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

XX. RESERVES

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by transferring amounts out of the General Fund Balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then transferred back into the General Fund Balance so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, local taxation, retirement and employee benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

XXI. REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax - see workings at Note x.

XXII. VALUE ADDED TAX

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty’s Revenue and Customs. VAT receivable is excluded from income.

XXIII. FAIR VALUE MEASUREMENT

The Council measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments such as equity shareholdings at fair value at the end of the reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

a) in the principal market for the asset or liability, or

b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The Council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Council uses valuation techniques that are appropriate in the circumstances and for which suitable data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Council's financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council can access at the measurement date
- Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – unobservable inputs for the asset or liability.

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ITEM NO	

Annual Governance Statement Arrangements 2018 19

REPORT TO AUDIT AND STANDARDS COMMITTEE

DATE	16 January 2019
PORTFOLIO	Resources and Performance Management
REPORT AUTHOR	Salma Hussain
TEL NO	Ext 3152
EMAIL	salmahussain@burnley.gov.uk

PURPOSE

1. To inform the Audit and Standards Committee of the arrangements to provide assurance for an Annual Governance Statement for the financial year 2018/19.

RECOMMENDATION

2. That the Audit and Standards Committee approves the proposed process.

REASONS FOR RECOMMENDATION

3. The Audit and Standards Committee are required to approve the Annual Governance Statement.

SUMMARY OF KEY POINTS

4. There is a requirement under the Accounts and Audit Regulations 2015 that as part of the annual accounts process the Council is required to review both its internal control and wider governance arrangements. It must also publish an Annual Governance Statement (AGS) to accompany the Councils Statement of Accounts.

5. Members were presented with 2017/18 AGS reports at Audit and Standards Committee in July 2017.

6. Planning for the production of the 2018/19 AGS has now commenced. This will be in line with CIPFA (Chartered Institute for Public Finance and Accountancy) and SOLACE (Society of Local Authority Chief Executives) guidelines. The 2018/19 AGS will incorporate the core principles, introduced in the 2016/17 AGS.

7. The Role of Head of Internal Audit is to be updated by CIPFA and is expected to be published in 2018/19.

8. The assurance gathering process remains the same and is shown in Appendix 1. Heads of Service and specific Members of the Council will be asked to complete a statement of assurance supported by a governance questionnaire (reflecting the seven core principles) which will be passed onto Management Team. The Chief Executive and Leader will

consider Management Team and Member statements before producing an Annual Governance Statement for the authority.

9. Similarly, Liberata will be requested to provide an assurance statement for those services that have been transferred out.

10. The 2018/19 AGS will then be reported alongside the Statement of Accounts.

FINANCIAL IMPLICATIONS AND BUDGET PROVISION

11. None

POLICY IMPLICATIONS

12. None

DETAILS OF CONSULTATION

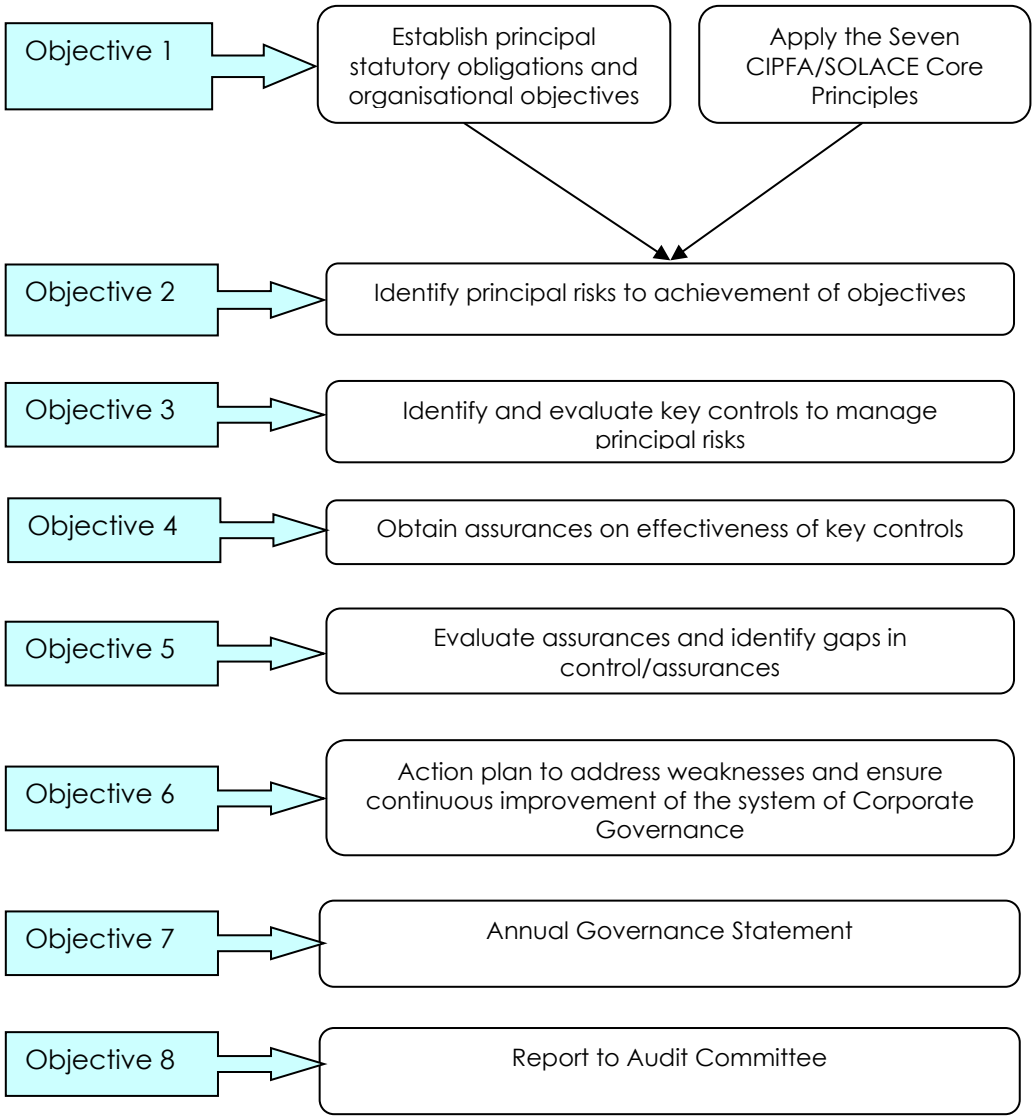
13. None

BACKGROUND PAPERS

14. None

FURTHER INFORMATION	
PLEASE CONTACT:	**Salma Hussain (Auditor) Ext 3152**
ALSO:	**Ian Evenett (Internal Audit Manager) Ext 7175**

Appendix 1: Annual Governance Statement and the Assurance Gathering Process



From: CIPFA Finance Advisory Network - The Annual Governance Statement – Rough Guide for Practitioners 2007

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ITEM NO	[AgendaItem]

Internal Audit Progress Report

REPORT TO AUDIT AND STANDARDS COMMITTEE

DATE	**16/01/2019**
PORTFOLIO	**Resources and Performance Management**
REPORT AUTHOR	**Ian Evenett**
TEL NO	**01282 425011 Ext 7175**
EMAIL	**ievenett@burnley.gov.uk**

PURPOSE

1. To inform members of the work undertaken by Internal Audit for the period 1st July to 30th September 2018.
2. To inform members of the Internal Audit Plan for 2018/19.

RECOMMENDATION

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

REASONS FOR RECOMMENDATION

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

SUMMARY OF KEY POINTS

Audit Reports

5. From 1st July to 30th September 2018 there have been 5 audit reports produced. Details of Burnley Council audits are given in **Appendix 1**.

Performance Statistics

6. 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.

7. Performance indicators for Internal Audit are reported in the Finance balanced scorecard. The service currently reports the number of audit reports produced – 10 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%.

Internal Audit Plan 2018/19

8. Audit is required to have a risk-based audit plan for a period of no longer than one year. A copy of the plan is provided in **Appendix 3.**

9. Normally this is prepared prior to the start of the year, however, there have been significant changes in resourcing up till now which made the production of a realistic plan difficult. 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 2017/18 plan, and the large bulk of audits that required to be performed annually.

10. The Audit and Standards Committee should consider the plan as they are 'The Board' in respect of the Public Sector Internal Audit Standards (PSIAS).

11. We will start to form the Plan for next year in January and work to provide a draft to Management Team and Audit and Standards Committee in March 2019.

Other Activity

12. New Auditors have quickly settled in and been inducted into the Council. They are both involved in delivering the Audits included in the Internal Audit Plan. The work in connection with Burnley Leisure Service Level Agreement has been completed.

13. Internal Audit has been involved in several corporate and Finance and Property projects (Property Fund Investment and Pioneer Place) and continues to provide financial advice to all services. The Internal Audit Manager continues to be the Council's Data Protection Officer and has been providing advice and guidance in respect of this.

FINANCIAL IMPLICATIONS AND BUDGET PROVISION

14. None

POLICY IMPLICATIONS

15. None

DETAILS OF CONSULTATION

16. None

BACKGROUND PAPERS

17. None

FURTHER INFORMATION	
PLEASE CONTACT:	**Ian Evenett (Internal Audit Manager) Ext 7175**
ALSO:	

Appendix 1

Summary of Audit reports Issued Quarter 2 2018/19

Audit	Service	Audit Purpose	Audit Opinion	Key Actions Agreed	Implementation Detail	Score
Payroll	Finance & Property People & Development	To review the controls in operation for the payment of salaries to Burnley Council employees.	Payroll controls continue to function effectively	No Actions Required	N/A	1
JW Shaw Accounts	Corporate	To inform the Independent Examiners Report to the requirements of the Charities Commission	No issues to report	No Actions Required	N/A	1
Mayors Charity	Corporate	To inform the Independent Examiners Report to the requirements of the Charities Commission	No issues to report	No Actions Required	N/A	1
Acorn Fund	Corporate	To inform the Independent Examiners Report to the requirements of the Charities Commission	No issues to report	No Actions Required	N/A	1
Stocks Massey Bequest	Corporate	To inform the Independent Examiners Report to the requirements of the Charities Commission	No issues to report	No Actions Required	N/A	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.

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Internal Audit Activity Quarter 2 2018-19

Audit	Started	Report Issued	Audit Score
Corporate			
Annual Governance Statement	✓	✓	NA (Satisfactory)
National Fraud Initiative	✓		
Charities			
J W Shaw	✓	✓	1
Mayor's Charity	✓	✓	1
Burnley Acorn Fund	✓	✓	1
Stocks Massey	✓	✓	1
Debts Write-Off	✓		
Fraud Risk Review	✓	✓	NA (Satisfactory)
Strategic Partner Performance Indicators			
Revenues and Benefits	✓	✓	1
Information Services	✓		
Regulation	✓		
Property	✓		
Finance			
Benefits Calculation Check	✓		
Bank Reconciliation			
Final Accounts	✓	✓	NA (Satisfactory)
Payroll	✓	✓	1
Budget Monitoring			
General Ledger	✓		
Creditors	✓		
Cash Imprest	✓		

Audit	Started	Report Issued	Audit Score
Information Governance			
Data Protection	✓		
Legal and Democratic Services			
Elections			
Council	✓	✓	1
External Clients			
Burnley Leisure – Service Level Agreement	✓		

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Service	Audit Activity	Risk Rank	Audit Days	Total
Corporate	Annual Governance Statement	15	25	
	NFI	12	10	
	Charities	13	5	
	Debts Write-Off	6	8	
	Fraud Risk Review	10	5	
	Strategic Partner Performance Indicators	11	30	
				83
Finance & Property	Benefits Calculation Check	7	15	
	Bank Reconciliation	7	10	
	Final Accounts	14	5	
	Payroll	3	8	
	Budget Monitoring	1	10	
	General Ledger	2	15	
	Cash Imprest	16	10	
	Creditors	5	14	
				87
Information Governance	Data Protection	4	12	
				12
Legal & Democratic Services	Elections	9	2	
				2
External Clients	Burnley Leisure – Service Level Agreement		11	11
	Frauds and Investigations		10	
	Emergent Risks		7	
	Follow-Up		7	
	Advice and Guidance		12	36
	Total Available Days			231

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ITEM NO	[AgendaItem]

Fraud Risk Assessment

REPORT TO AUDIT AND STANDARDS COMMITTEE

DATE	16/01/2019
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 current fraud trends that affect the public sector.

RECOMMENDATION

2. That Committee note the report.

REASONS FOR RECOMMENDATION

3. The Council's arrangements for the fight against fraud and corruption are monitored by the Audit and Standards Committee.

4. The Committee is satisfied with management's reaction to the report and the risk of fraud.

SUMMARY OF KEY POINTS

5. The current publicly published fraud reports are; CIPFA's Fraud and Corruption Tracker (CFaCT) report 2017 and 2018 and the University of Portsmouth's Centre for Counter Fraud Studies 2017 'Annual Fraud Indicator report'.

6. According to the Fraud and Corruption Tracker (CFaCT) the main types of fraud affecting the Public Sector remain the same as reported in previous years: Council Tax, Housing Benefit and Housing Tenancy. The largest growing area is business rates fraud.

7. The Annual Fraud Indicator 2017 report states that the percentage of fraud within local government (excluding benefits) has increased from last year's report of £7.3 billion to £7.8 billion

Council Tax & Housing Benefit

8. Housing Benefit and Council Tax Reduction fraud continues to be a problem at a national level with estimated fraud rates at 4.04% and 1.22% respectively, according to the 2017

Annual Fraud Indicator.

9. During 2017/18 the Council paid £31m in Housing Benefit (HB) and £7.6m in Council Tax Support (CTS). Using the above fraud rates, this potentially means the amount fraudulently claimed could be £1.26m of HB and £92.8k of CTS.

10. The Council is no longer responsible for the investigation of HB fraud, but it is responsible for referral of potential fraud cases and the collection of amounts identified as fraud. It is still considered a risk as the financial loss of benefit is borne by councils once the investigation is complete.

11. Over the previous 12 months there were 4 referrals to the Single Fraud Investigation Service (SFIS) and 13 requests for information from the SFIS and £800k of Housing Benefit has been identified as overpaid.

12. The Council has been undergoing a transfer of Housing Benefit cases to Universal Credit. This will act to reduce the impact of Housing Benefit Fraud.

Business Rates

13. The largest growing area identified in this year's CFaCT's survey is business rates fraud. Business rate fraud can include the falsification of circumstances to gain exemptions and discounts.

14. To mitigate this risk, empty properties are examined by area on a rota-based system or on request of the Business Rates Officer. Websites such as the National Heritage and the Charity Commission are checked to ensure that businesses are entitled to the Mandatory Charity discounts. Discretionary charitable relief can only be approved by the Head of Finance and Property Services.

Housing Tenancy Fraud

15. Tenancy fraud continues to be a national issue but does not directly affect Burnley Borough Council as it no longer has responsibility for social housing. Continued participation with the National Fraud Initiative means we share benefit information with Housing Associations which could assist them in identifying tenancy fraud.

16. The Council is part of the regional choice based letting scheme which has 5 local authorities and 16 registered social landlords. Information is shared with other partners in the scheme.

Procurement

17. In last year's CFaCT survey procurement was seen as one of the greatest areas of fraud risk and this remains the same for 2017/18. As per the CFaCT survey, the number of fraud has decreased from 197 prevented or detected procurement frauds with an estimated value of £6.2m to 142 estimated fraudulent cases with an estimated value of £5.2m.

18. The Annual Fraud Indicator 2017 has calculated the fraud loss rate as 4.76%. The Council has approximately £23.7m in its 2018/19 budget to purchase goods, materials and services. If using the fraud loss rate against the budgeted amount, this amounts to a

cost of £1.1m.

19. To mitigate the risk, the Council has Financial Procedure Rules and Standing Orders for Contracts in place. The purchasing system has built-in approval thresholds and there is a separation of duties between orders and goods receipted. There are tender evaluation models and a facility for an on-line secure tender receipt.

Insurance Fraud

20. This fraud includes any false insurance claim made against an organisation or an organisation's insurer.

21. Insurance claims are dealt with on our behalf by Pendle Borough Council. Any letters of claim are sent to them to deal with and they liaise with the insurers. Our insurers (Zurich) cross check claimants to see if they have claimed before and are also part of an anti-fraud network with other insurers.

Grant Fraud

22. This type of fraud relates to the false application or payment of grants or financial support to any person and any type of agency or organisation.

23. Various types of grants awarded by the Council were examined. Controls included procedural notes, separation of duties, obtaining supporting documentation and reporting to committee.

Cyber Risk

24. Cyber based frauds presents both new methods of committing fraud and new fraud opportunities. This poses a growing challenge to a sector becoming more digital in terms of service delivery.

25. Viruses and 'phishing' e-mails represent the most common. Phishing e-mails are attempts to gain personal details of users, this is commonly bank details but can include passwords etc. Most automated attempts are non-specific and are automatically blocked by the Council's systems. There are also 'Ransomware' attacks in which an attempt is made to extort monies for un-encrypting infected files.

26. There are various controls in place to reduce the risk of cyber-crime. Controls include network security, anti-malware defences, various policies, managing user privileges, training/ phishing exercises undertaken by staff, etc.

Organised Crime

27. Organised crime often involves complicated and large scale fraudulent activity which crosses to more than area such as insurance claims, business rates, procurement, etc. The CIPFA CFaCT 2017/18 survey identified 56 cases of serious and organised crime which was over double the figures reported in 2016/17, however 93% of these cases were reported by respondents from metropolitan unitaries. As seen above, various arrangements are in place to reduce the risk of fraudulent activity taking place.

National Anti-Fraud Network (NAFN)

28. The Council is a member of NAFN. They provide data and intelligence services supporting members in protecting the public purse from fraud, abuse and error.

FINANCIAL IMPLICATIONS AND BUDGET PROVISION

29. None as a direct result of this report, however losses to fraud have a direct impact on the Council's finances.

POLICY IMPLICATIONS

30. The Council has a Corporate Anti-Fraud, Bribery and Corruption Policy and an Internal Audit Strategy.

DETAILS OF CONSULTATION

31. None

BACKGROUND PAPERS

32. CIPFA Fraud and Corruption Tracker 2017 report and 2018 report
http://www.cipfa.org/services/counter-fraud-centre/fraud-and-corruption-tracker
33. Annual Fraud Indicator 2017
https://www.experian.co.uk/assets/identity-and-fraud/annual-fraud-indicator-report-2017.pdf
34. National Cyber Security Strategy 2016-2021
https://www.gov.uk/government/publications/national-cyber-security-strategy-2016-to-2021

FURTHER INFORMATION	
PLEASE CONTACT:	**Salma Hussain ext 3152**
ALSO:	**Ian Evenett ext 7175**

ITEM NO	[AgendaItem]

Strategic Risk Register

REPORT TO AUDIT AND STANDARDS COMMITTEE

DATE	**16/01/2019**
PORTFOLIO	**Resources and Performance Management**
REPORT AUTHOR	**Ian Evenett**
TEL NO	**01282 425011 Ext 7175**
EMAIL	**ievenett@burnley.gov.uk**

PURPOSE

1. To update members on the current Strategic Risk Register.

RECOMMENDATION

2. The Committee considers the Strategic Risk Register and comments on its contents.

REASONS FOR RECOMMENDATION

3. Members can monitor the Strategic Risk Register arrangements.

SUMMARY OF KEY POINTS

Strategic Risk Register

4. The current Strategic Risk Register (Appendix 1) was approved by the Executive in August 2018 (Minute 30 14/0818). There are twelve main risks recorded.

Governance Issues

5. Effective and up to date risk management is a key element of good corporate governance and contributes to an effective, focused organisation that has an understanding of the challenges facing it. The register links to the strategic actions that the Council has in place to control these risks and to strategic plans and actions to better serve the community. Risk Scoring provides a relative assessment of the risks and effectiveness of controls and plans to address the risks.

Review of Risk Register

6. The Strategic Risk Register is reviewed to align with the Strategic Plan. Risks are not static and the register needs to be aligned with the current position.

Risk 10 – Workforce and Skills Capacity Challenges

7. This has increased from a risk score of 8 to a risk score of 12. This is an increasing likelihood (from 2 to 3).

8. There were several Heads of Service who expressed that one of their top risks were related to workforce capacity.

Risk 11 Malicious Acts

9. The Government's National Risk assessment for malicious acts is Severe and has been increased to Critical, its highest level, several times after events. Changes in tactics and targets have been a recent feature in international terrorism. A different threat faced by all local authorities is a malicious act like the South Oxfordshire arson attack in 2015. The council has several effective corporate measures in place to control this risk. These include a range of physical security measures, emergency planning, business continuity planning, event management, liaison with Police and other responders and staff instructions. The risk score of 5 represents an impact of 5 but a likelihood of 1. This was moved from service risk registers to the strategic risk register to increase its awareness and transparency.

Risk 12 Safeguarding

10. This is a prominent risk for Councils with social services but district councils can still be exposed to this risk. The council has various effective corporate measures in place to control this risk. These include a clear corporate message ('If there's a doubt, then there's no doubt'), DBS (Criminal Record) checking, compulsory training and a council wide reporting structure. The risk score of 5 represents an impact of 5 and a likelihood of 1. This was moved from service risk registers to the strategic risk register to increase its awareness and transparency.

Other changes

11. The links to changed strategic objectives have been included as have organisational changes in the Lead Responsibilities.

Assurance Mapping

12. This approach presents a presentation of the assurance that the Council's Strategic Risks are being appropriately managed. The model applied is that of the government and uses three lines of defence as illustrated in Appendix 2.

13. The detail and the outcomes of the assurance mapping is presented at Appendix 3. It is not necessary that each risk should have a line of associated defence but that there is appropriate assurance to the risk to ensure that it is managed effectively. The outcome of the assessment is that there is no specific improvement actions required.

FINANCIAL IMPLICATIONS AND BUDGET PROVISION

14. None

POLICY IMPLICATIONS

15. None

DETAILS OF CONSULTATION

16. None

BACKGROUND PAPERS

17. None

FURTHER INFORMATION	
PLEASE CONTACT:	Ian Evenett (Internal Audit Manager) Ext 7175
ALSO:	

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Burnley Borough Council

Strategic Risk Register

16 May 2018

Strategic Risk Register Summary

Risk Ref	Risk Description	Risk Score
1	Financial stability	15
8	Inability to influence key decision makers	12
10	Workforce, skills and capacity challenges	12
5	Changes in national policy/legislation	9
6	Inability to deliver the regeneration programme	9
7	Inability to drive improvements through information technology	8
9	Risks in responding to demographic changes and increased deprivation	8
2	Maintaining Partnership Performance	6
3	Damage to the Council's reputation	6
4	Changes in the political landscape	6
11	Malicious Attack	5
12	Safeguarding Failure	5

Risk Prioritization Matrix

Likelihood								
	5							Red - High
	4				10			
	3			2, 4	5, 6	8	1	Amber - Medium
	2				3	9, 7		
	1						11,12	Green - Low
	0							Insignificant
		0	1	2	3	4	5	
		Impact						

Likelihood	Impact	Risk Priorities
0 Almost impossible 1 Very unlikely 2 Unlikely 3 Likely 4 Very likely 5 Virtually certain	0 Minimal 1 Minor 2 Significant 3 Serious 4 Major 5 Catastrophic	Red = High Priority Risk Urgent Action to reduce or mitigate risk
		Amber = Medium Priority Risk Action and Monitoring of risk
		Green = Low Priority Risk Keep Reviewed reduce if possible

Risk Ref 1 Financial stability

Trigger or Cause	Possible Consequences of Risk
Further funding cuts	Organisational sustainability
Income loss	Reduced service delivery
Insufficient financial controls	Reduced customer satisfaction
Expensive decision making	Reduced reserves
External cost pressures	Overspends
Political growth	Damaged credit rating
Failing to understand the financial problem	Damage to reputation
National Economic Changes	Workforce morale/planning/retention
Claims against the Council	Reduced reputation for financial management

Strategic Link: Cross Cutting

Residual Risk Assessment	IMPACT	5	LIKELIHOOD	3	SCORE	15	Medium Priority Risk

Strategic Commitments

PF1 - We will embed the partnership with Liberata within the Council's budget, strategic vision and commercial strategy.

PF2 - We will adopt a Medium Term Financial Strategy that will put the Council on a sustainable footing. This strategy will set the framework for annual budgets, ensuring the annual budget is set within the context of the longer term outlook.

PF3 - We will develop our digital strategy, so that more residents transact with us online and we are able to deliver services more efficiently.

PL1 - We will implement a range of initiatives to maintain a clean, safe borough.

PL4 - We will implement our 2015-25 Green Space Strategy.

PR1 - We will contribute to the strategic direction of local, sub-regional and regional partnerships, and will position the borough for economic development investment

PR2 - We will proactively support the borough’s businesses to innovate and expand, and make the borough a natural choice for business relocation

PR3 - We will make the borough attractive to retail and leisure developers, and will identify a sustainable future for the Burnley Market.

PF4 - We will deliver our Organisational Development strategy, ensuring we plan for the structures and capabilities the organisation needs, and empowering our workforce to deliver the objectives of the Strategic Plan.

Lead Responsibility Head of Finance & Property

Risk Score: 0 - 1 Insignificant; 2 - 6 Low Risk; 8 - 15 - Medium Risk; 16 - 25 High Risk

Risk Ref 10 Workforce, skills and capacity challenges

Trigger or Cause	Possible Consequences of Risk
Loss of the workforce	Service failure/deterioration
Loss of organisational memory	Damaged reputation
Loss of organisational skills	Increased complaints
Lack of commitment to organisational development	Low morale
Lack of investment in training	Recruitment and retention issues
Political direction change	Increased workflow
	Business resilience
	Not having the right staff with the right skills

Strategic Link: Cross Cutting

Residual Risk Assessment	IMPACT	3	LIKELIHOOD	4	SCORE	**12**	Medium Priority Risk

Strategic Commitments

PF1 - We will embed the partnership with Liberata within the Council's budget, strategic vision and commercial strategy.

PF2 - We will adopt a Medium Term Financial Strategy that will put the Council on a sustainable footing. This strategy will set the framework for annual budgets, ensuring the annual budget is set within the context of the longer term outlook

PF3 - We will develop our digital strategy, so that more residents transact with us online and we are able to deliver services more efficiently.

PL1 - We will implement a range of initiatives to maintain a clean, safe borough.

PL4 - We will implement our 2015-25 Green Space Strategy.

PF4 - We will deliver our Organisational Development strategy, ensuring we plan for the structures and capabilities the organisation needs, and empowering our workforce to deliver the objectives of the Strategic Plan.

Lead Responsibility Chief Executive Officer

Risk Score: 0 - 1 Insignificant; 2 - 6 Low Risk; 8 - 15 - Medium Risk; 16 - 25 High Risk

Risk Ref 8 Inability to influence key decision makers

Trigger or Cause	Possible Consequences of Risk
Change of political control	Loss of external funding opportunities
Breakdown of key relationships	Reduced level of influence over key decision makers
Change of staff/key relationships	Inability to deliver through partnerships
Change in reputation for delivery	Reduced reputation of Council

Strategic Link: Cross Cutting

Residual Risk Assessment	IMPACT	4	LIKELIHOOD	3	SCORE	12	Medium Priority Risk

Strategic Commitments

PE1 - We will work with partners to make the borough a place of aspiration, including supporting efforts to increase education attainment and skills development, and improve residents' health.

PL3 - We will work with partners to improve the quality and choice in the borough's housing stock.

PR1 - We will contribute to the strategic direction of local, sub-regional and regional partnerships, and will position the borough for economic development investment

PR2 - We will proactively support the borough's businesses to innovate and expand, and make the borough a natural choice for business relocation

Lead Responsibility Management Team

Risk Ref 6 Inability to deliver the regeneration programme

Trigger or Cause

Economic downturn
Lending squeeze
Procurement failure
Regeneration funding priorities change
Changes in funding from Central Government or as a result of the withdrawal from the European Union

Possible Consequences of Risk

Inability of private sector partners to deliver
Delivery partner does not have the capacity to delivery
Delays in delivery of the regeneration programme
Damaged reputation

Strategic Link: Prosperity People

Residual Risk Assessment	IMPACT	3	LIKELIHOOD	3	SCORE	9	Medium Priority Risk

Strategic Commitments

PR1 - We will contribute to the strategic direction of local, sub-regional and regional partnerships, and will position the borough for economic development investment

PR2 - We will proactively support the borough's businesses to innovate and expand, and make the borough a natural choice for business relocation

PR3 - We will make the borough attractive to retail and leisure developers, and will identify a sustainable future for the Burnley Market.

PR4 - We will deliver the Local Plan. This will act as the key supporting framework for encouraging future employment and investment in a range of housing stock.

PL3 - We will work with partners to improve the quality and choice in the borough's housing stock.

PE1 - We will work with partners to make the borough a place of aspiration, including supporting efforts to increase education attainment and skills development, and improve residents' health.

Lead Responsibility Strategic Head of Economy and Growth

Risk Score: 0 - 1 Insignificant; 2 - 6 Low Risk; 8 - 15 - Medium Risk; 16 - 25 High Risk

Risk Ref 5 Changes in national policy/legislation

Trigger or Cause	Possible Consequences of Risk
New functions/loss of existing functions Short term thinking Lack of capacity Changes from the withdrawal from the European Union Changes from the devolution of Powers from Central Government	Reduced control over what you do and how you do it Inability to respond to the new agenda and continue with on-going functions Exclusion from new or evolving regional and sub-regional governance and operating structure Not in a position to deliver new functions or requirements

Strategic Link: Prosperity

Residual Risk Assessment	IMPACT	3	LIKELIHOOD	3	SCORE	9	Medium Priority Risk

Strategic Commitments

PR1 - We will contribute to the strategic direction of local, sub-regional and regional partnerships, and will position the borough for economic development investment

Lead Responsibility Management Team

Risk Score: 0 - 1 Insignificant; 2 - 6 Low Risk; 8 - 15 - Medium Risk; 16 - 25 High Risk

Risk Ref 9 Risks in responding to demographic changes and increased deprivation

Trigger or Cause

Government policy
Economic downturn
Big ticket issues – crime, health, housing
Benefit dependency
Short term fixes
Negative reputation
Failure to develop opportunities

Possible Consequences of Risk

Not delivering on the regeneration programme
Poor service delivery
Poor customer satisfaction
Low aspirations
Damage to reputation
Failure to improve
Increased demand
Increased costs
Less funding
Viability of Burnley

Strategic Link: Cross Cutting

Residual Risk Assessment IMPACT 4 LIKELIHOOD 2 SCORE 8 Medium Priority Risk

Strategic Commitments

PE1 - We will work with partners to make the borough a place of aspiration, including supporting efforts to increase education attainment and skills development, and improve residents' health.

PE2 - We will continue to develop the leisure and cultural offer of Burnley in partnership with Burnley Leisure.

PL1 - We will implement a range of initiatives to maintain a clean, safe borough.

PL2 - We will improve the management of private rented accommodation.

PL3 - We will work with partners to improve the quality and choice in the borough's housing stock.

PR1 - We will contribute to the strategic direction of local, sub-regional and regional partnerships, and will position the borough for economic development investment

PR2 - We will proactively support the borough's businesses to innovate and expand, and make the borough a natural choice for business relocation

PR3 - We will make the borough attractive to retail and leisure developers, and will identify a sustainable future for the Burnley Market.

PR4 - We will deliver the Local Plan. This will act as the key supporting framework for encouraging future employment and investment in a range of housing stock.

Lead Responsibility Management Team

Risk Score: 0 - 1 Insignificant; 2 - 6 Low Risk; 8 - 15 - Medium Risk; 16 - 25 High Risk

Risk Ref 7 Inability to drive improvements through information technology

Trigger or Cause

IT partnership failure (to deliver past procurement)
IT partnership procurement failure
Current IT provision failure
Information governance failure

Possible Consequences of Risk

Inability to deliver and develop services and not deliver anticipated savings and service improvement
Public confidence in use of Council services through IT lowered

Strategic Link: Performance

Residual Risk Assessment	IMPACT	4	LIKELIHOOD	2	SCORE	8	Medium Priority Risk

Strategic Commitments

PF1 - We will embed the partnership with Liberata within the Council's budget, strategic vision and commercial strategy.

PF3 - We will develop our digital strategy, so that more residents transact with us online and we are able to deliver services more efficiently.

Lead Responsibility Chief Operating Officer

Risk Score: 0 - 1 Insignificant; 2 - 6 Low Risk; 8 - 15 - Medium Risk; 16 - 25 High Risk

Risk Ref 4 Changes in the political landscape

Trigger or Cause	Possible Consequences of Risk
No overall control	Lack of strategic leadership
Political instability	Poor decision making
Poor member and officer relationships	Impact on the Council's reputation
Poor member and member relationships	Loss of influence with key partners

Strategic Link: People Performance

Residual Risk Assessment	IMPACT	2	LIKELIHOOD	3	SCORE	6	Low Priority Risk

Strategic Commitments

PE1 - We will work with partners to make the borough a place of aspiration, including supporting efforts to increase education attainment and skills development, and improve residents' health.

PF3 - We will develop our digital strategy, so that more residents transact with us online and we are able to deliver services more efficiently.

Lead Responsibility Chief Executive Officer

Risk Ref 3 Damage to the Council's reputation

Trigger or Cause	Possible Consequences of Risk
Service failure	Strategic plan delivery problem
Loss of key staff	Credibility of the leadership (both political and officer)
External events	Low morale
Customer Satisfaction not maintained	Loss of key staff
	Recruitment and retention issues

Strategic Link: Cross Cutting

Residual Risk Assessment	IMPACT	3	LIKELIHOOD	2	SCORE	6	Low Priority Risk

Strategic Commitments

PF1 - We will embed the partnership with Liberata within the Council's budget, strategic vision and commercial strategy.

PF2 - We will adopt a Medium Term Financial Strategy that will put the Council on a sustainable footing. This strategy will set the framework for annual budgets, ensuring the annual budget is set within the context of the longer term outlook.

PR1 - We will contribute to the strategic direction of local, sub-regional and regional partnerships, and will position the borough for economic development investment

PL1 - We will implement a range of initiatives to maintain a clean, safe borough.

PF3 - We will develop our digital strategy, so that more residents transact with us online and we are able to deliver services more efficiently.

Lead Responsibility Chief Executive Officer

Risk Score: 0 - 1 Insignificant; 2 - 6 Low Risk; 8 - 15 - Medium Risk; 16 - 25 High Risk

Risk Ref 2 Maintaining Partnership Performance

Trigger or Cause

Procurement method
Supply chain failure
Commissioning 'v' traditional culture
Control transfer
Poor implementation
Compliance/legal
Business continuity
Transformational cultural change not achieved
Poor or weak contract management

Possible Consequences of Risk

Reduced service delivery
Reduced customer satisfaction
Political or reputation embarrassment
Perceived council failure
Poor co-ordination of existing providers and systems
Poor relationships
Increased costs

Strategic Link: Cross Cutting

Residual Risk Assessment	IMPACT	2	LIKELIHOOD	3	SCORE	6	Low Priority Risk

Strategic Commitments

PE1 - We will work with partners to make the borough a place of aspiration, including supporting efforts to increase education attainment and skills development, and improve residents' health.

PE2 - We will continue to develop the leisure and cultural offer of Burnley in partnership with Burnley Leisure.

PF1 - We will embed the partnership with Liberata within the Council's budget, strategic vision and commercial strategy.

PF3 - We will develop our digital strategy, so that more residents transact with us online and we are able to deliver services more efficiently.

PL1 - We will implement a range of initiatives to maintain a clean, safe borough.

PL3 - We will work with partners to improve the quality and choice in the borough's housing stock.

PL4 - We will implement our 2015-25 Green Space Strategy.

PR3 - We will make the borough attractive to retail and leisure developers, and will identify a sustainable future for the Burnley Market.

Lead Responsibility Management Team

Risk Ref 12 Safeguarding Failure

Trigger or Cause	Possible Consequences of Risk
Weak or No response to reported issues	Injury to Clients
Historic issues which are identified	Resources diverted to address Risks
Safeguarding System Failure	Major impact on Services and Community
Failure of Background Checks	Financial Costs
Not recognising Safeguarding Risks	Reputational Damage
	Central Government Action

Strategic Link: Cross Cutting

Residual Risk Assessment	IMPACT	5	LIKELIHOOD	1	SCORE	5	Low Priority Risk

Strategic Commitments

PL1 - We will implement a range of initiatives to maintain a clean, safe borough.

PF4 - We will deliver our Organisational Development strategy, ensuring we plan for the structures and capabilities the organisation needs, and empowering our workforce to deliver the objectives of the Strategic Plan.

Lead Responsibility Chief Executive Officer

Risk Score: 0 - 1 Insignificant; 2 - 6 Low Risk; 8 - 15 - Medium Risk; 16 - 25 High Risk

Risk Ref 11 Malicious Attack

Trigger or Cause

Public Disturbance
National Risk Level
Lack of Stakeholder Engagement
Lack of Planning
Poor and delayed information and communication
Event Targeting

Possible Consequences of Risk

Death of Public / Staff
Loss of Assets
Major impact on Services and Community
Evacuation
Financial Cost

Strategic Link: Cross-Cutting

Residual Risk Assessment	IMPACT	5	LIKELIHOOD	1	SCORE	5	Low Priority Risk

Strategic Commitments

PL1 - We will implement a range of initiatives to maintain a clean, safe borough.

Lead Responsibility Chief Operating Officer

Risk Score: 0 - 1 Insignificant; 2 - 6 Low Risk; 8 - 15 - Medium Risk; 16 - 25 High Risk

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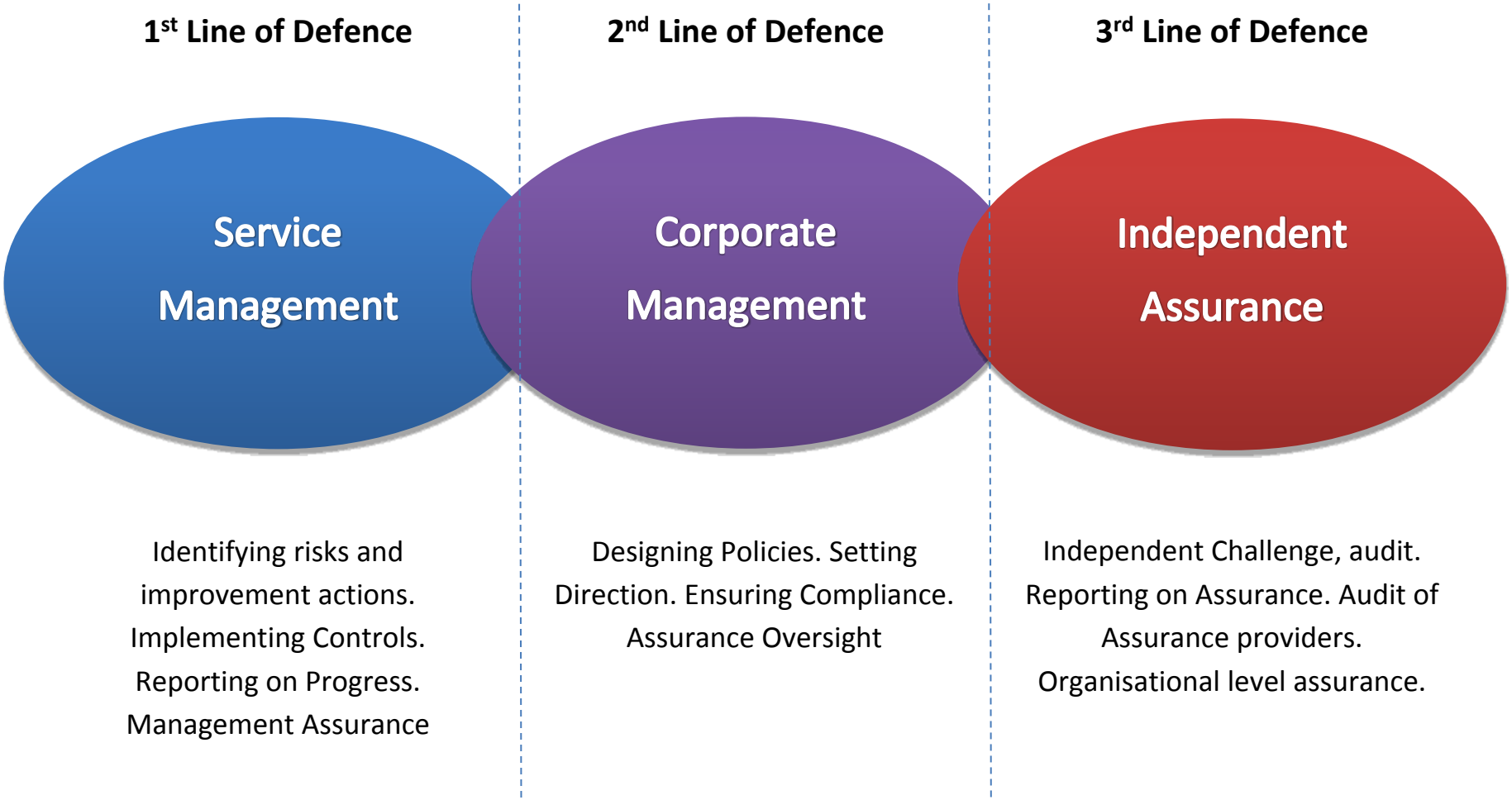
Appendix 2 – Risk Assurance Providers



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Appendix 3 – Assurance Mapping

		Assurance Providers				Assessment		
		Service Management (First Line) Identifying risks and improvement actions. Implementing controls. Reporting on Progress. Management Assurance	Corporate Management (Second Line) Designing policies. Setting direction. Ensuring compliance. Assurance Oversight	Independent Assurance (Third Line) Independent Challenge, audit. Reporting on Assurance. Audit of Assurance providers. Organisational level assurance.		Control RAG Rating (see key)	Assurance Sufficient? Y/N	Improvement Actions
Risk Ref	Risk			Internal Audit	Other Independent Sources of Assurance			
1	**Financial stability**	Medium Term Financial Strategy Budget Setting Budget Monitoring General Ledger Procurement systems Strategic Partner Selection Savings Plans	Budget Reports MTFS Budget Monitoring Financial Procedure Rules	Income Management Treasury Management Write-Offs Payroll Fraud Risk Assessment	External Audit	Amber - 15	Y	
8	**Inability to influence key decision makers**	Community Strategy Local Plan Delivery	Member Complaints Officer Member Protocol LEP Role	Annual Governance Statement		Amber - 12	Y	
10	**Workforce, skills and capacity challenges**	Organisational Development Strategy PDR's & Job Chat's Training Budget Spend	PDR Completion Internal IiP Review	Green Spaces & Amenities Asset Control	IiP Accreditation	Amber - 12	Y	
5	**Changes in national policy/legislation**	Strategic Plan Service Plans	Committee Reports on Required Changes Monitoring Office Consultation Strategy and Policy updates and Reviews LEP Role	Annual Governance Statement		Amber - 9	Y	
6	**Inability to deliver the regeneration programme**	Project Management Budget Monitoring	Local Plan Town Centre Masterplan		Independent Consultant Reviews Planning Inspector Reviews	Amber - 9	Y	
7	**Inability to drive improvements through information technology**	IT Strategy IT Spend Monitoring IT Procurement control PCIDSS Assessments	Change Control IT Satisfaction PSN requirements IT Policies	Website	Penetration Testing PSN Accreditation	Amber - 8	Y	
9	**Risks in responding to changes in demographics and increased deprivation**	Strategic Plan Monitoring of Statistics - ONS, LCC, DWP Welfare System Impact monitoring		Selective Licencing Assessment of Benefits		Amber - 8	Y	

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		Assurance Providers				Assessment		
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Risk Ref	Risk			Internal Audit	Other Independent Sources of Assurance			
2	**Maintaining Partnership Performance**	Project Management Partnerships Governance Arrangements Business Continuity Review	Contract Monitoring Complaints Process	Performance Indicator Audits		Low – 6	Y	
3	**Damage to the Council's reputation**	Staff Satisfaction Surveys	Strategic Plan Delivery Reporting Staff PDRs and 121s. Citizen Panel Surveys Complaints Process	Charities Elections Annual Governance Statement	Mystery Shopper reviews	Low – 6	Y	
4	**Changes in the political landscape**	Strategic Plan Community Plan Service Plans	Member Complaints Officer /Member Protocol	Annual Governance Statement		Low – 6	Y	
11	**Malicious Attack**	Business Continuity Plans Emergency Plan Testing IT Security Controls	Emergency Plan Business Continue Policy IT Policies	Website		Low – 5	Y	
12	**Safeguarding Failure**	Safeguarding training Safeguarding Awareness DBS Checking	Safeguarding Policy Safeguarding Structures/Responsibilities		DBS Checking	Low - 5	Y	

Key		**RAG Rating on the effectiveness of controls from assurance work undertaken**
Red	High	Significant concerns over the adequacy/effectiveness of the controls in place in proportion to the risks.
Amber	Medium	Some areas of concern over the adequacy/effectiveness of controls in place in proportion to the risks.
Green	Low	Controls in place assessed as adequate/effective and in proportion to the risks.
White	Unknown	Insufficient information at present to judge the adequacy/effectiveness of controls

AUDIT & STANDARDS COMMITTEE

Work Programme 2018/19

DATE OF MEETING	AREAS TO BE CONSIDERED
19th July 2018	• *Annual Governance Statement 2017/18* • *Grant Thornton – Audit Findings Report 2017/18* • *Statement of Accounts 2017/18* • *Internal Audit Opinion 2017/18* • *Governance of Liberata Partnership* • *Code of Conduct Review* • *Padiham Town Council* • *Work Programme 2018/19*
19th September 2018	• *Standards Complaints Update* • *Internal Audit Progress Report Q1* • *External Auditor Appointment Arrangments Update* • *Annual Audit Letter* • *Internal Audit Plan 2018/19* • *Regulation of Investigatory Powers Act – OSC Inspection and Annual Return* • *Work Programme 2018/19*
16th January 2019	• *External Audit Progress Report* • *Certification Report* • *Draft Audit Plan 2018/19* • *Final Accounts 2018/19 arrangements* • *Annual Governance Statement 2018/19 Arrangements* • *Internal Audit Progress Report Q2* • *Fraud Risk Assessment 2018/19* • *Strategic Risk Register 2018/19* • *Standards Complaints Update* • *Work Programme 2018/19*
6th March 2019	• *Internal Audit Progress Report Q3* • *Internal Audit Plan 2018/19* • *External Audit Plan 2018/19* • *Standards Complaints Update* • *Work Programme 2018/19*