



The Annual Audit Letter for Burnley Borough Council

Year ended 31 March 2019

23 August 2019



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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Burnley Borough Council (the Council) for the year ended 31 March 2019.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit and Standards Committee as those charged with governance in our Audit Findings Report on 17 July 2019.

Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £1,208,000, which was 2% of the Council's gross revenue expenditure.
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 29 July 2019.
Whole of Government Accounts (WGA)	We confirmed to the NAO that no further work was required under WGA as the Council does not exceed the NAO's threshold specified for Income, expenditure, assets or liabilities.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.
Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 29 July 2019.
Certification of Grants	We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2019. We will report the results of this work to the Audit and Standards Committee separately.
Certificate	We certified that we have completed the audit of the financial statements of Burnley Borough Council in accordance with the requirements of the Code of Audit Practice on 29 July 2019.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Executive Summary

Working with the Council

Working with the Council

As in previous years we have worked with Council staff in preparing to meet the new statutory accounts deadline of 31 May. We were pleased to receive the draft financial statements on 29 May 2019.

Good comprehensive working papers were available in advance of the start of our audit visit on 30 May 2019. This demonstrates the Council's ongoing commitment to good quality, timely financial statements.

Finance staff responded promptly and knowledgeably to our questions and queries during the audit, enabling us to substantially complete our audit by 17 July 2019 and deliver our audit opinion on 29 July 2019.

During the year we also:

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

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

Grant Thornton UK LLP
August 2019

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the Council's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Council's financial statements to be £1,208,000, which is 2% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We also set a lower level of specific materiality for senior officer remuneration of £6,000.

We set a lower threshold of £60,000, above which we reported errors to the Audit and Standards Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the financial statements and the narrative report and annual governance statement published alongside the financial statements to check it is consistent with our understanding of the Council and with the financial statements included in the Annual Report on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

The Financial Reporting Council (FRC) is responsible for reviewing and assessing the quality of local public audit work undertaken by Grant Thornton and the other audit firms. In response to the latest feedback from the FRC on local public audit work we have updated and refined our approach to the audit of PPE and Pensions Liabilities, which has resulted in additional audit procedures being undertaken. We have included fee adjustments to cover these additional procedures which are set out at page 12 of this report.

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Management override of internal controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>In response to this risk we</p> <ul style="list-style-type: none"> evaluated the design effectiveness of management controls over journals analysed the journals listing and determine the criteria for selecting high risk or unusual journals tested high risk / unusual journals recorded for appropriateness and corroboration gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence evaluated the rationale for changes in accounting policies, estimates or significant unusual transactions. 	<p>Our audit work did not identify any issues in respect of management override of controls.</p>
<p>Valuation of land and buildings</p> <p>The Authority revalued 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 valuation estimated 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</p> <p>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 for the audit.</p>	<p>In response to this risk we:</p> <ul style="list-style-type: none"> evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work evaluated the competence, capabilities and objectivity of the valuation expert wrote to the valuer to confirm the basis on which the valuation was carried out challenged the information and assumptions used by the valuer to assess the completeness of source data and consistency with our understanding, tested revaluations made during the year to see if they have been input correctly into the Authority's asset register evaluated 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. 	<p>We identified the need for a Prior Period Adjustment to reflect the omission of a revaluation in 2017/18, where the Council had originally recognised this in 2018/19. This was amended by management.</p> <p>Our audit work has not identified any issues in respect of valuation of land and buildings at 31 March 2019. Our work did not identify any other issues relating to the valuation of land and buildings that we need to bring to your attention</p>

Audit of the Financial Statements

Significant Audit Risks - continued

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of net pension liability</p> <p>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 estimated valuation in the Authority's balance sheet and the sensitivity of the estimate to changes in key assumptions.</p> <p>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.</p>	<p>In response to this risk we :</p> <ul style="list-style-type: none"> • updated 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; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • tested 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; • undertook 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 • obtained 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. 	<p>On 12 July 2019 the Actuary issued a revised estimate of the pension funds assets and liabilities, recognising the additional liabilities arising from the McCloud judgement.</p> <p>The Council revised the financial statements to reflect the revised estimation provided by the Actuary.</p> <p>We were satisfied with the adjustment management had made to the financial statements.</p> <p>Our work did not identify any other issues relating to the valuation and reporting of the pension fund net liability that we needed to bring to your attention</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 29 July 2019.

Preparation of the financial statements

The Council presented us with draft financial statements in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Council's Audit and Standards Committee on 17 July 2019.

Annual Governance Statement and Narrative Report

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

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

Whole of Government Accounts (WGA)

We carried out work on the Council's Data Collection Tool in line with instructions provided by the NAO. We issued an assurance statement which confirmed the Council was below the audit threshold

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of Burnley Borough Council in accordance with the requirements of the Code of Audit Practice on 29 July 2019.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

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

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2019.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Financial sustainability</p> <p>As with most authorities, Burnley Borough Council continues to operate under significant financial pressures. The Medium Term Financial Strategy (MTFS) highlighted the requirement to make £3.23 million of savings over the 3 year period to 2021/22. This was comparable with over 21% of the Council's Revenue Budget.</p> <p>Savings amounting to just over £1.23 million had been approved at the stage of planning our audit, however almost £2million of savings had yet to be identified and approved.</p>	<p>We monitored the Authority's financial position through regular meetings with senior management and considered how the Authority managed its budget and assessed progress in the identification and delivery of the future savings required.</p>	<p><u>Revenue Outturn 2018/19</u></p> <p>Consistent with previous years the Council delivered its planned outturn for 2018/19 with a balanced position against its net budget of £15,090,000, delivering savings of £1,862,000 and a net transfer to earmarked reserves of £468,000. Individual budgets delivered broadly on target and the strategic partnership arrangement continues to offer considerable stability to the £3,610,000 budget for the provision of revenues, benefits and other support services. The Council maintained its General Fund Balance at £1,379,000 which has been the level the Council has set for several years.</p> <p><u>2019/20 Budget and Medium Term Financial Strategy</u></p> <p>In February 2019 the Council approved a balanced budget for 2019/20 as a net budget of £15,815,000. As in previous years the budget was set with prudent assumptions, with allowances included for inflation, pay increases and a range of other growth factors which are likely to occur over the course of the year, together with realistic assumptions on the levels of income from fees and charges in the current economic climate. Savings of £1m were originally identified as being required and have now been identified.</p> <p>The Council's MTFS has been extended and now covers the four financial periods 2020/21 to 2023/24. The MTFS recognises the ongoing pressures from core spending reductions and considers scenarios ranging from 0% to 4% reduction in core spending power and resulting in a potential cumulative financial gap of between £2m and £4.5m over the 4 year period.</p> <p>The MTFS recognises the significant risks arising from key pressures such as inflationary expenditure costs, volatility in business rates and limits on Council Tax increases, together with the further risks arising from new risks arising from the necessary borrowing for major capital projects (potentially up to £32m). Mitigating actions have been identified where possible and most importantly around the conditions required for construction to commence on major capital schemes. It will be crucial for these pre conditions to be scrutinised and challenged prior to any commitments to construction taking place.</p> <p>It is clear that a robust plan has been prepared for 2019/20 and the MTFS remains realistic in terms of current understanding on central government plans, however uncertainty remains around the Local Government Spending Review, which has now been deferred for another year and will not take effect until the 2021-22 financial year. Both Officers and Members need to make sure that effective financial management continues to be at the heart of all decisions to ensure that the Council is best placed to deal with the challenges ahead.</p> <p>We have concluded that the Council has effective arrangements in place for sustainable resource deployment.</p>

Value for Money conclusion

Value for Money Risks (continued)

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Major capital scheme developments</p> <p>The Council has approved proposals and financial business cases for significant capital schemes to be carried out over the next 2 years.</p> <p>These schemes are in support of the Council's 'Place and Prosperity' objective as part of the Town Centre and Canalside masterplan.</p> <p>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.</p>	<p>We reviewed the governance arrangements the Council has in place to support appropriately informed decision making and to monitor and manage risks associated with such schemes.</p>	<p>In December 2018 the Council gave approval to the proposals for two significant capital schemes:</p> <ul style="list-style-type: none"> • Sandygate Square student accommodation scheme • Pioneer Place town centre development scheme. <p>Prior to presentation to members for approval, officers obtained in cooperation with the University of Central Lancashire (UCLAN) detailed market assessments for 'Sandygate' based on student numbers and, accommodation availability supported by appropriate external advisers. Building costs and design advice were also obtained for the Council's Joint Venture partner.</p> <p>Briefings and presentations have been made to members setting out the significant impact on the Council in terms of borrowing requirements and occupancy levels.</p> <p>For the town centre development of Pioneer Place, the Council had previously sought appropriate external advisers to scrutinise the development plans of the Council's approved developer partner. The Cinema and Supermarket developments that form the key elements of the scheme are subject to the risk of obtaining sufficient level of tenancy. The agreement between the Council and the developer sets out the level of pre lets required before construction commences.</p> <p>At this early development stage, the Council has appropriately sought external advice and has reviewed and reported the risks associated with the development of the capital schemes. Members have received training briefings and support in understanding the risks involved prior to making key decisions in approving scheme proposals and business cases.</p> <p>It will be essential that the development of schemes is closely monitored by officers with appropriate contract management skills and scrutiny from members, particularly prior to significant commitments to capital expenditure being made (see previous page on financial resilience risks)</p> <p>We are satisfied that the Council has effective arrangements in place for informed decision making.</p>

A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	January 2019
Audit Findings Report	July 2019
Annual Audit Letter	August 2019

Fees

	Planned £	Actual fees £	2017/18 fees £
Statutory audit	38,937	TBC*	50,567
Housing Benefit Grant Certification	9,750	TBC	9,675
Total fees	48,687	TBC	60,242

Audit scale fee

As outlined in our audit plan, the 2018-19 scale fee published by Public Sector Audit Appointments Ltd (PSAA) of £38,937 assumes that the scope of the audit does not significantly change. Where the scope of an audit changes and/or additional work is required to be carried out, PSAA consider whether additional fees may be charged.

The PSAA is currently considering the additional work required for 2018/19 relating to the McCloud case for pensions and other areas of work. We will update the Head of finance and the Committee where there are any implications for the audit fee.

A. Reports issued and fees continued

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

Fees for non-audit services

Service	Fees £
Audit related services	
- RGF Grant – Weavers Triangle	2,950
Non-Audit related services	
- None	Nil

Non- audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor.

Our commitment to our local government clients

- Senior level investment
- Local presence enhancing our responsiveness, agility and flexibility.
- High quality audit delivery
- Collaborative working across the public sector
- Wider connections across the public sector economy, including with health and other local government bodies
- Investment in Health and Wellbeing, Social Value and the Vibrant Economy
- Sharing of best practice and our thought leadership.
- Invitations to training events locally and regionally – bespoke training for emerging issues
- Further investment in data analytics and informatics to keep our knowledge of the areas up to date and to assist in designing a fully tailored audit approach

Our relationship with our clients – why are we best placed?

- We work closely with our clients to ensure that we understand their financial challenges, performance and future strategy.
- We deliver robust, pragmatic and timely financial statements and Value for Money audits
- We have an open, two way dialogue with clients that support improvements in arrangements and the audit process
- Feedback meetings tell us that our clients are pleased with the service we deliver. We are not complacent and will continue to improve further
- Our locally based, experienced teams have a commitment to both our clients and the wider public sector
- We are a Firm that specialises in Local Government, Health and Social Care, and Cross Sector working, with over 25 Key Audit Partners, the most public sector specialist Engagement Leads of any firm
- We have strong relationships with CIPFA, SOLCAE, the Society of Treasurers, the Association of Directors of Adult Social Care and others.

New opportunities and challenges for your community

The Local Government economy

Local authorities face unprecedented challenges including:

- Financial Sustainability – addressing funding gaps and balancing needs against resources
- Service Sustainability – Adult Social Care funding gaps and pressure on Education, Housing, Transport
- Transformation – new models of delivery, greater emphasis on partnerships, more focus on economic development
- Technology – cyber security and risk management

At a wider level, the political environment remains complex:

- The government continues its negotiation with the EU over Brexit, and future arrangements remain uncertain.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.

Delivering real value through:

- Early advice on technical accounting issues, providing certainty of accounting treatments, future financial planning implications and resulting in draft statements that are 'right first time'
- Knowledge and expertise in all matters local government, including local objections and challenge, where we have an unrivalled depth of expertise.
- Early engagement on issues, especially on ADMs, housing delivery changes, Children services and Adult Social Care restructuring, partnership working with the NHS, inter authority agreements, governance and financial reporting
- Implementation of our recommendations have resulted in demonstrable improvements in your underlying arrangements, for example accounting for unique assets, financial management, reporting and governance, and tax implications for the Cornwall Council companies
- Robust but pragmatic challenge – seeking early liaison on issues, and having the difficult conversations early to ensure a 'no surprises' approach – always doing the right thing
- Providing regional training and networking opportunities for your teams on technical accounting issues and developments and changes to Annual Reporting requirements
- An efficient audit approach, providing tangible benefits, such as releasing finance staff earlier and prompt resolution of issues.

Grant Thornton in Local Government

Our client base and delivery



- We are the largest supplier of external audit services to local government
- We audit over 150 local government clients
- We signed 95% of our local government opinions in 2017/18 by 31 July
- In our latest independent client service review, we consistently score 9/10 or above. Clients value our strong interaction, our local knowledge and wealth of expertise.

Our connections



- We are well connected to MHCLG, the NAO and key local government networks
- We work with CIPFA, Think Tanks and legal firms to develop workshops and good practice
- We have a strong presence across all parts of local government including blue light services
- We provide thought leadership, seminars and training to support our clients and to provide solutions

Our people



- We have over 25 engagement leads accredited by ICAEW, and over 250 public sector specialists
- We provide technical and personal development training
- We employ over 80 Public Sector trainee accountants

Our quality



- Our audit approach complies with the NAO's Code of Audit Practice, and International Standards on Auditing
- We are fully compliant with ethical standards
- Your audit team has passed all quality inspections including QAD and AQRT

Our technical support



- We have specialist leads for Public Sector Audit quality and technical
- We provide national technical guidance on emerging auditing, financial reporting and ethical areas
- Specialist audit software is used to deliver maximum efficiencies



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