



Our ref:
Your ref:

Howard Hamilton-Smith
S151 Officer
Burnley Council
Town Hall,
Manchester Road,
Burnley
BB11 9SA
25 May 2021

Dear Howard,

Financial Statements for the year ended 31 March 2021

As part of our audit of Burnley Council's financial statements for the year ended 31 March 2021, we need to update our understanding of your accounting estimates, including all the key accounting estimates that will be included in Burnley Council's financial statements this year. We do this to maintain our understanding of Burnley Council and to comply with International Auditing Standards (ISAs (UK)), including the revised standards that apply to our 2020/21 audit for the first time.

International Auditing Standards place obligations on auditors to document their understanding of the entity and its environment, including the entity's internal control, in identifying and assessing the risks of material misstatement in the financial statements. [ISA \(UK\) 540 \(Revised\) Auditing Accounting Estimates and Related Disclosures](#) (revised in December 2018) is effective for audits of financial statements for periods beginning on or after 15 December 2019. The revised standard requires auditors to understand a number of matters related to your key accounting estimates (as set out in section 13 of the standard).

To assist us in meeting these requirements, I would be grateful if you would consider and formally respond to the matters set out in the accompanying schedules. A separate schedule is included for each key accounting estimate that we have identified. If you are aware of any other material accounting estimates that will be included in your financial statements, could you please add and complete an additional schedule for that estimate.

I would be grateful for your responses, if possible, by 30 June 2021 to help inform our risk assessment and planning of our 2020/21 audit of the Authority's financial statements.

Please do not hesitate to contact me if you wish to discuss anything in relation to this request.

Yours sincerely

Operational Land and Buildings valuation estimate

Question	Management response
<p>1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?</p>	<p>Potential risks around property values due to the Covid-19 pandemic.</p> <p>The council employs an inhouse team of suitably qualified valuers to calculate the accounting estimate, taking into consideration any identified risks.</p>
<p>2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used?</p> <p>Were any changes made to these methods or models in 2020/21, and if so what was the reason for the change?</p>	<p>Where the fair value measurement of assets cannot be measured using Level 1 inputs, the fair value is calculated by the relevant experts using valuation techniques based on observable data (Level 2 inputs), but, where this is not possible, judgement is required in establishing fair values (level 3 inputs). These judgements typically include considerations such as uncertainty and risk, and changes in these assumptions could affect the fair values of the Authorities investment properties.</p> <p>There were no changes to the methods used in 2020/21.</p>
<p>3. How do management select the assumptions used in respect of this accounting estimate?</p> <p>Were any changes made to these assumptions in 2020/21, and if so what was the reason for the change?</p>	<p>The assumptions are based on observable data, the level of future repairs and maintenance to be carried out etc. The assumptions are made by the Council's in house valuation team, who are all suitably qualified.</p> <p>Valuations of land and buildings are carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors (RICS).</p> <p>There were no changes to the assumptions in 2020/21.</p>
<p>4. How do management select the source data used in respect of this accounting estimate?</p> <p>Were any changes made to this source data in 2020/21, and if so what was the reason for the change?</p>	<p>The following fair value hierarchy provides further information on the approach used to determine and measure fair value of certain assets and liabilities:</p> <p>Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date.</p> <p>Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.</p> <p>Level 3 – unobservable inputs for the asset or liability.</p> <p>There were no changes to the selection of source data in 2020/21.</p>
<p>5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so how were these specialist skills procured?</p>	<p>The Council instructs its own internal qualified surveyors.</p>
<p>6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?</p>	<p>Valuations of land and buildings are carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors (RICS).</p>

7. In management's opinion, are their adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so how is the robustness of the key controls assessed?	Management is of the opinion that there are adequate controls in place. Calculation of accounting estimates are carried out by the Council's in house valuation team who are all suitably qualified, in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors (RICS).
8. Were any changes made to the key control activities this year? If so please provide details.	No
9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?	Valuations are carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors (RICS). Where 'material valuation uncertainty' is identified it is reported on the basis of 'material valuation uncertainty' as per VPS3 and VPGA 10 of the RICS Red Book Global. The inclusion of this clause does not mean the valuations cannot be relied upon, only that the valuations in the current unprecedented circumstances require a degree of caution and, given the unknown future impact that COVID-19 may have on the market, valuations should be kept under regular review as market evidence emerges. Future revaluations of assets will attempt to reflect observed changes to the property market.
10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?	Guidance is obtained from the Council's in house valuation team. Depreciation is calculated based on the estimated useful life of an asset – a sensitivity analysis is included within the SoA for indicative purposes of the impact of changes in useful lives on the depreciation charge.

LGPS net liability valuation estimate

Question	Management response
1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?	The financial assumptions used to calculate the liabilities are based on bond yields at the accounting date. The calculations of the asset value allows for investment returns to the accounting date (using actual returns where available, and estimates based on either Fund information or market indices otherwise). As such, the figures reflect the impact of COVID-19 on financial markets to the accounting date.
2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used? Were any changes made to these methods or models in 2020/21, and if so what was the reason for the change?	Mercer's Ltd are employed as the Lancashire County Pension Fund Actuary. The methods and models used are in accordance with pension legislation and the CIPFA Code. There were no changes to these methods or models in 2020/21.

<p>3. How do management select the assumptions used in respect of this accounting estimate?</p> <p>Were any changes made to these assumptions in 2020/21, and if so what was the reason for the change?</p>	<p>The estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discounts used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. Mercer's Ltd is engaged to provide the Council with expert advice about the assumptions to be applied.</p> <p>There were no changes to these assumptions in 2020/21.</p>
<p>4. How do management select the source data used in respect of this accounting estimate?</p> <p>Were any changes made to this source data in 2020/21, and if so what was the reason for the change?</p>	<p>The source data is selected by Mercer's Ltd across the Lancashire County Pension Fund.</p> <p>There were no changes to the source data in 2020/21.</p>
<p>5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so how were these specialist skills procured?</p>	<p>The accounting estimates are calculated and provided by Mercer's Ltd across the Lancashire County Pension Fund.</p>
<p>6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?</p>	<p>The Council employs an Actuary (Mercer's Ltd) who are who work across the Lancashire County Collection Fund.</p>
<p>7. In management's opinion, are their adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so how is the robustness of the key controls assessed?</p>	<p>Mercer's Ltd are an Actuary, employing suitably qualified professionals and work across the Lancashire County Pension Fund.</p>
<p>8. Were any changes made to the key control activities this year? If so please provide details.</p>	<p>No</p>
<p>9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?</p>	<p>The Council employs and Actuary (Mercer's Ltd) who work across the Lancashire County Collection Fund. Management review the annual movements in estimates and carry out some internal analysis however the accounting estimate provided by Mercer's Limited is accepted by Management.</p>
<p>10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?</p>	<p>A sensitivity analysis is proved by Mercer's Ltd which is disclosed in the Financial Statements.</p>

Investment Properties valuation estimate

Question	Management response
<p>1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?</p>	<p>Potential risks around property values due to the Covid-19 pandemic.</p> <p>The council employs an in-house team of suitably qualified valuers to calculate the accounting estimate, taking into consideration any identified risks.</p>

<p>2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used?</p> <p>Were any changes made to these methods or models in 2020/21, and if so what was the reason for the change?</p>	<p>Where the fair value measurement of assets cannot be measured using Level 1 inputs, the fair value is calculated by the relevant experts using valuation techniques based on observable data (Level 2), but, where this is not possible, judgement is required in establishing fair values (Level 3). These judgements typically include considerations such as uncertainty and risk, and changes in these assumptions could affect the fair values of the Authorities investment properties.</p> <p>There were no changes to the methods used in 2020/21.</p>
<p>3. How do management select the assumptions used in respect of this accounting estimate?</p> <p>Were any changes made to these assumptions in 2020/21, and if so what was the reason for the change?</p>	<p>The assumptions are based on observable data, but where this is not available assumptions are made based on consideration such as uncertainty and risk. The assumptions are made by the Council's in house valuation team, who are all suitably qualified.</p> <p>There were no changes to the assumptions in 2020/21.</p>
<p>4. How do management select the source data used in respect of this accounting estimate?</p> <p>Were any changes made to this source data in 2020/21, and if so what was the reason for the change?</p>	<p>The following fair value hierarchy provides further information on the approach used to determine and measure fair value of certain assets and liabilities:</p> <p>Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date.</p> <p>Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.</p> <p>Level 3 – unobservable inputs for the asset or liability.</p> <p>There were no changes to the selection of source data in 2020/21.</p>
<p>5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so how were these specialist skills procured?</p>	<p>The Council instructs its own internal qualified surveyors.</p>
<p>6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?</p>	<p>Valuations of land and buildings are carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors (RICS).</p>
<p>7. In management's opinion, are their adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so how is the robustness of the key controls assessed?</p>	<p>Management is of the opinion that there are adequate controls in place.</p> <p>Calculation of accounting estimates are carried out by the Council's in house valuation team who are all suitably qualified, in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors (RICS).</p>
<p>8. Were any changes made to the key control activities this year? If so please provide details.</p>	<p>No</p>
<p>9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?</p>	<p>Valuations are carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors (RICS). Where 'material valuation uncertainty' is identified it is reported on the basis of 'material valuation uncertainty' as per VPS3 and VPGA 10 of the RICS Red Book Global. The inclusion of this clause does not</p>

	mean the valuations cannot be relied upon, only that the valuations in the current unprecedented circumstances require a degree of caution and, given the unknown future impact that COVID-19 may have on the market, valuations should be kept under regular review as market evidence emerges. Future revaluations of assets will attempt to reflect observed changes to the property market.
10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?	Guidance is obtained from the Council's in house valuation team with the valuation of 100% of investment properties being reviewed annually. Depreciation is calculated based on the estimated useful life of an asset – a sensitivity analysis is included within the SoA for indicative purposes of the impact of changes in useful lives on the depreciation charge.

Depreciation estimate

Question	Management response
1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?	A review of the useful life of assets have been carried out following revaluation. Adjustments have been made to the depreciation calculation as a result. Working papers have been maintained to demonstrate the impact.
2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used? Were any changes made to these methods or models in 2020/21, and if so what was the reason for the change?	Depreciation is calculated on the following bases: <ul style="list-style-type: none"> • 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 There were no changes in 2020/21.
3. How do management select the assumptions used in respect of this accounting estimate? Were any changes made to these assumptions in 2020/21, and if so what was the reason for the change?	The assumptions used in the calculation of the accounting estimate are in the main based on the useful life of the asset, with the exception of vehicles, plant, furniture and equipment. The assumptions used for this class of asset are made by a suitably qualified officer. There were no changes to the assumptions in 2020/21.
4. How do management select the source data used in respect of this accounting estimate? Were any changes made to this source data in 2020/21, and if so what was the reason for the change?	Depreciation is calculated on the value of the asset as measured by the Council's in house valuation team. A rolling fixed asset register is maintained detailing the annual depreciation/revaluation/impairments charges etc.
5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so how were these specialist skills procured?	The asset valuation and useful life of an asset are reviewed by the Council's in house valuation team.

6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?	An annual fixed asset register is maintained. This is used by the valuations team when assets are valued and also in the calculation of annual depreciation. In addition the RAM asset management system is maintained which is reconciled annually to the fixed asset register.
7. In management's opinion, are their adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so how is the robustness of the key controls assessed?	Management is of the opinion that adequate controls are in place. The annual depreciation calculated as per the fixed asset register is reconciled to that as calculated by the RAM asset management system.
8. Were any changes made to the key control activities this year? If so please provide details.	N/A
9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?	Depreciation is calculated based on the estimated useful life of an asset. The Council's in house valuation team estimate each assets useful life. A review of the useful life of assets have been carried out following revaluation. Adjustments have been made to the depreciation calculation as a result. Working papers have been maintained to demonstrate the impact.
10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?	The annual depreciation charge is dependant upon the value of the asset. Sensitivity around this charge is linked to asset valuation which is covered elsewhere.

Provisions estimate

Question	Management response
1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?	The provision which attracts the most considerable risk is the Business Rates Appeals provision. The Council subscribes to Analyse Local who estimate the likelihood of appeals materialising using the latest Valuation Office Agency (VOA) ratings list of appeals. This analysis is used when calculating the estimate of total provision up to and including 31 March.
2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used? Were any changes made to these methods or models in 2020/21, and if so what was the reason for the change?	Consultation takes place between Heads of Service, the Council's Monitoring Officer, senior officers, Management Team and external organisations. Methods are selected based on an assessment and likelihood of risk. No changes were made in 2020/21.
3. How do management select the assumptions used in respect of this accounting estimate? Were any changes made to these assumptions in 2020/21, and if so what was the reason for the change?	Consultation takes place between Heads of Service, the Council's Monitoring Officer, senior officers, Management Team and external organisations. The assumptions used are based on an assessment and likelihood of risk. No changes were made in 2020/21.

<p>4. How do management select the source data used in respect of this accounting estimate?</p> <p>Were any changes made to this source data in 2020/21, and if so what was the reason for the change?</p>	<p>Consultation takes place between Heads of Service, the Council's Monitoring Officer, senior officers, Management Team and external organisations.</p> <p>No changes were made in 2020/21.</p>
<p>5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so how were these specialist skills procured?</p>	<p>The Council subscribes to Analyse Local to assist in the calculation of the Business Rates Provision.</p> <p>Guidance is obtained from an insurance agency with regards the MMI provision.</p> <p>Consultation takes place between Heads of Service, the Council's Monitoring Officer, senior officers, Management Team and external organisations.</p>
<p>6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?</p>	<p>The council employs the services of agencies who specialise in the areas concerning the provision.</p>
<p>7. In management's opinion, are their adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so how is the robustness of the key controls assessed?</p>	<p>Management is satisfied that there are adequate controls in place.</p> <p>Consultation takes place between Heads of Service, the Council's Monitoring Officer, senior officers, Management Team and external organisations.</p>
<p>8. Were any changes made to the key control activities this year? If so please provide details.</p>	<p>No changes were made in 2020/21.</p>
<p>9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?</p>	<p>Provisions are calculated using the best estimate available at the time of estimation.</p>
<p>10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?</p>	<p>Consultation takes place between Heads of Service, the Council's Monitoring Officer, senior officers, Management Team and external organisations to identify to sensitivity of the estimate.</p>