The Audit Findings Report for Burnley Council

Year ended 31 March 2021

March 2022

Contents

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management and the Corporate Governance and Audit Committee.

Georgia Jones

Name : Georgia Jones

For Grant Thornton UK LLP

Date : 17 March 2022

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Burnley Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2021 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Council's financial statements give a true and fair view of the financial position of the Council and the Council's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

The majority of our audit work was completed remotely during October-December. The audit work however continued into January 2022 and has extended into March as a result of various queries on samples, accounting treatment and financial statements presentation. Our findings are summarised on page 5. We have not identified any adjustments to the financial statements that result in a bottom-line adjustment to the Council's Comprehensive Income and Expenditure Statement, Balance Sheet or General Fund. Disclosure and misclassification adjustments are detailed in Appendix C. We have raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

Our work on the key financial statement balances and significant risk areas is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion, or material changes to the financial statements, subject to the following outstanding matters;

- completion of final testing in a number of areas – land and building revaluations, investment property revaluations, grants
- resolution of isolated accounting treatment queries
- receipt of management representation letter
- review of the final set of financial statements; and
- completion of our audit file quality review.

We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit report opinion will be unqualified.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay was issued to the Chair of the Audit and Standards Committee on 23 September 2021. We expect to issue our Auditor's Annual Report by the end of February 2022. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified a risk in respect of financial sustainability to reflect the continuing uncertainty over future government funding.

We have performed further procedures in respect of this risk and have completed this element of our VFM work. Our findings are set out in the value for money arrangements section of this report. The remainder of our work is ongoing.

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

We expect to certify the completion of the audit upon the completion of our work on the Council's VFM arrangements, which will be reported in our Annual Auditor's Report in February 2022 and completion of our work on the Whole of Government Accounts.

Significant Matters

We did not encounter any significant difficulties or identify any significant matters arising during our audit.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and require the approval of the Audit and Standards Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment, including its IT systems and controls;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

We have not had to alter our audit plan, as communicated to you at of the Audit and Standards Committee on 23 September 2021.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit and Standards Committee meeting on 17 March, as detailed in Appendix E. These outstanding items include:

- completion of final testing in a number of areas – land and building revaluations, investment property revaluations, and grants
- resolution of isolated accounting treatment queries
- receipt of management representation letter
- review of the final set of financial statements; and
- completion of our audit file quality review.

We anticipate completing the audit during March 2022 and will issue the final version of this Audit Findings Report to members of the Audit and Standards Committee prior to issuing the opinion for consideration.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff.

The impact of the pandemic has meant that both your finance team and our audit team faced audit challenges again this year, such as continuing with remote access working arrangements. This included remote accessing financial systems, video calling, physical verification of assets, verifying the completeness and accuracy of information remotely produced by the Council and access to key data from the Council.

These additional audit procedures were required to gain sufficient audit assurance in respect of our auditor's opinion on the financial statements.

2. Financial Statements

Our approach to 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.

Materiality levels remain the same as reported in our Audit Plan in September 2021.

We detail in the table our determination of materiality for Burnley Council.

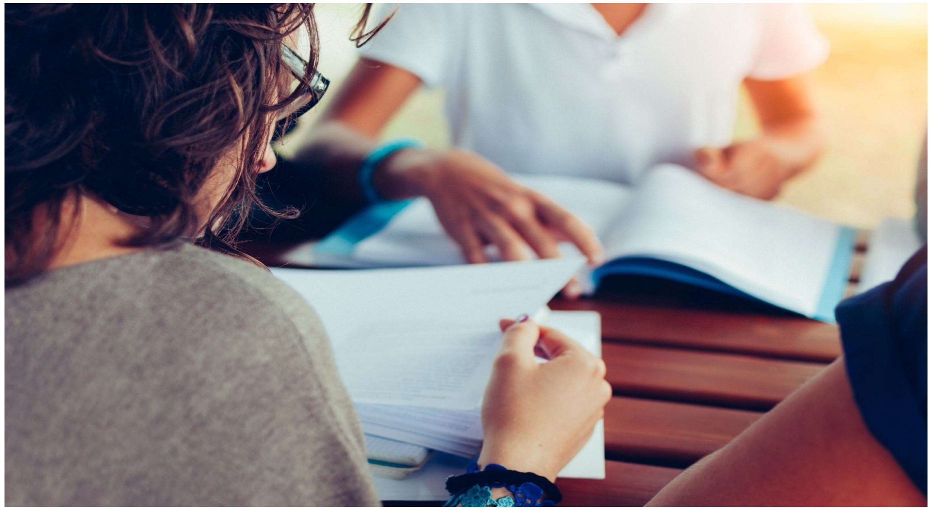
	Amount (£)	Qualitative factors considered
Materiality for the financial statements	1,180,000	This equates 2% of your gross operating expenditure and is considered to be the level above which users of the financial statements would wish to be aware in the context of overall expenditure. This benchmark is considered the most appropriate because we consider users of the financial statements to be most interested in how the Council has expended its revenue and other funding.
Performance materiality	767,000	The performance materiality has been set at 65% of financial statement materiality. This reflects a standard benchmark based on risk assessed knowledge of potential for errors arising.
Trivial matters	59,000	This is the threshold for matters that are clearly inconsequential, whether taken individually or in aggregate. It is a standard benchmark set at 5% of materiality.
Materiality for senior officer emoluments	20,000	This is due to its sensitive nature, with the value based on the three times the salary bandings disclosed.

2. Financial Statements - Significant risks

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.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
Management override 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. This was one of the most significant assessed risks of material misstatement.	We have: • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage 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 any changes in accounting policies, estimates or significant unusual transactions. From our review of all journals posted during the year we identified 47 higher risk journals that warranted detailed audit testing. From testing carried out on these journals to date there has been no evidence of inappropriate management override of controls through journals. Our commentary on key accounting estimates is set out on pages 11 to 16. We found accounting policies to be appropriate.



2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
ISA240 revenue and expenditure recognition risk – Council risk (rebutted) Revenue ISA (UK) 240 includes a rebuttable presumed risk that revenue recognition may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA 240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted because: • there is little incentive to manipulate revenue recognition and opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Burnley Council, mean that all forms of fraud are seen as unacceptable Although the risk of fraud is rebutted, we recognise the risk of error in revenue recognition and this is addressed through the responses to risk detailed across. Expenditure In the public sector, whilst it is not a presumed significant risk, in line with the requirements of Practice Note (PN) 10: Audit of financial statements of public sector bodies in the United Kingdom - we also consider the risk of whether expenditure may be misstated due to the improper recognition of expenditure. This risk is rebuttable if the auditor concludes that there is no risk of material misstatement due to fraud relating to expenditure recognition. Based on our assessment we consider that we are able to rebut the significant risk in relation to expenditure, but will nevertheless, and in line with PN10, recognise the heighted inherent risk of 'other service expenditure' in our audit scoping and testing assessment.	The revenue and expenditure recognition risks have been rebutted. Despite revenue and expenditure recognition not being a significant risk we still undertook the following procedures to ensure that revenue and expenditure included within the accounts is materially correct. To gain this assurance we: • evaluated the Council's accounting policies for income and expenditure recognition for appropriateness and compliance with the Code • updated our understanding of the Council's system for accounting for income and expenditure and evaluated the design of relevant controls • undertook detailed substantive testing on the income and expenditure streams in 2020/21 • documented our understanding of the full nature of additional Covid-19 related income and expenditure • reviewed the accounting treatment of all new income and expenditure streams to confirm that they have been accounted for appropriately in line with the Code and accounting standards Our substantive income and expenditure testing has not identified any errors that we are required to bring to your attention.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of land and buildings (including surplus assets), and investment property £69.7m The Council revalues its land and buildings, on a rolling five yearly basis and annually for investment properties. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£51m of land and buildings, £8.4m of surplus assets and £10.3m of investment properties in the 2020/21 accounts) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council's financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used. Our 2019/20 opinion included an emphasis of matter paragraph drawing attention to disclosures included in the financial statements of a material uncertainty attached to property valuations at 31 March 2020 due to the uncertain impact of the Covid-19 pandemic. This paragraph did not represent a modification of our audit opinion. We have identified the valuation of land, buildings and investment property as a significant risk.	In response to this risk we have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the internal valuation expert and the scope of their work • evaluated the competence, capabilities and objectivity of the valuation expert • written to the valuer to confirm the basis on which the valuations were carried out • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding • tested a sample of valuations at 31 March 2021 to understand the information and assumptions used in arriving at any revised valuations • tested revaluations made during the year to see if they had been input correctly into the Council's asset register • reviewed whether the expert valuer had reported any material uncertainty in relation to property valuations as at 31 March 2021 and, if so, assessed the impact on disclosures in the financial statements and on our audit opinion. We have carried out the planned audit procedures and raised challenge regarding the assumptions used by management and their expert internal valuer. The valuation date used by the valuer was 1 April 2020. We have received satisfactory responses to these enquiries. Assets are revalued as at the 1 April. We have reviewed independent market data for the period 1 April 2020 – 31 March 2021, and have not identified any evidence to suggest that a material misstatement exists due to market factors between the valuation date and the balance sheet date. However we would recommend that valuation of land and buildings is undertaken as at 31 March of the year of the accounts. There is a risk that valuations undertaken as at 1 April could move by a material amount if there were any significant fluctuations in the market over the year. Additionally, we have challenged management's assessment that assets not revalued in year are materially stated at the balance sheet date. While management have not formally considered this by way of detailed calculations, we are satisfied assets are not materially misstated. We would recommend that management complete their own assessment to confirm the value of assets not valued are fairly stated. In undertaking our work we selected the following properties for detailed sample testing due to their high value and/or movement being different to our expectations based upon our independent market trends data: • Other land and buildings – 40 assets • Investment property – 20 assets We have not identified any significant errors based upon our sample testing. Note 4 Assumptions and Major Sources of Estimation Uncertainty made reference to a material valuation uncertainty regarding retail and specific trading assets due to the unprecedented circumstances caused by the Covid-19 pandemic. Our audit work is not yet complete, but has not identified any other issues in respect of valuation of land and buildings (see page 12 for further commentary on estimates used by management).

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of pension fund net liability (£61.2m) The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. Our 2019/20 opinion included an emphasis of matter paragraph, drawing attention to disclosures included in the financial statements which reported that, due to the impact of Covid-19 on the global financial markets, the valuation of the Pension Funds' investment properties were reported on the basis of material valuation uncertainty. This paragraph did not represent a modification of our audit opinion. The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation. The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable. The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount and inflation rates, where our consulting actuary has indicated that a 0.1% change in these two assumptions would have approximately 2% effect on the liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Authority's pension fund net liability as a significant risk. This is one of the most significant assessed risks of material misstatement.	In response to this risk we have: • updated our understanding of the processes and controls put in place by management to ensure that the pension fund net liability is not materially misstated and evaluated the design of the associated controls • evaluated the instructions issued by management to their management expert (the 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 share of the pension fund valuation • assessed the accuracy and completeness of the information provided to the actuary to estimate the liability • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing additional procedures suggested within the report • assessed whether the pension fund has reported any material uncertainty in relation to investment property valuations as at 31 March 2021 arising from the Covid-19 pandemic • 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 • obtained assurances from the auditor of the Lancashire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements Where appropriate, we have relied on the audit work carried out by another Grant Thornton team as auditors of the Lancashire Pension Fund, in undertaking the above procedures. Our audit work is complete and audit procedures have not identified any material errors in the valuation of the net pension fund liability.

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements in line with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations (including surplus assets) – £55.2m net book value	The Council request their internal valuer to revalue other land and building (opening value £35.7m net book value) on a five year cycle, using depreciated replacement cost (DRC) for specialised assets such as libraries, galleries and leisure centres. The remainder of operational other land and building are required to be revalued at existing use value (EUV). Surplus assets comprising of an opening value of £8.3 million are required to be revalued annually at fair value, estimated as highest and best use from a market participant's perspective. In 2020/21 the Council revalued £14.6m (31.3% net book value) of other land and buildings and revalued 100% of surplus assets. In line with RICS guidance, the Council's valuations have not been reported as being subject to 'material valuation uncertainty' except in respect of retail and specific trading related assets and sectors, as a result of Covid 19. The Council have added a disclosure within Note 4 of the financial statements to reflect this. Management have considered the year end value of non-valued properties in 2020/21. While not performing detailed calculations, Management rely of the internal valuers knowledge to assert that there is no material movement between the year end value of non-valued properties and their last revaluation. Similarly for assets revalued in year, management asserts that there is no potential material valuation movement arising between 1 April 2020 and the balance sheet date.	The Council's accounting policy on valuation of land and buildings is included in the Accounting Policies note which starts on page 92 of the financial statements. Key observations We assessed the qualifications, skills and experience of the valuer and determined the service to be appropriate. The underlying information and sensitivities used to determine the estimate was considered to be complete and accurate. The valuer prepared their valuations in accordance with the RICS Valuation – Global Standards using the information that was available to them at the valuation date in deriving their estimates. We have uplifted assets not revalued in the period using Gerald Eve indices and accepted management's assessment that there has been no material changes to the valuation of land and buildings not revalued in year. A similar approach and conclusion was reached with regards to the movement between the valuation date of 1 April 2020 and the balance sheet date. We consider the level of disclosure in the financial statements to be appropriate. We have selected a sample of 40 Other Land and Buildings valuations to test for appropriate use of valuation assumptions and input data. At the time of issuing this report this testing is not yet complete, however other than the outstanding query below, no issues have been noted to date. We have had detailed discussions with Management regarding the valuation of the new Sandygate student accommodation. We have also had to consult internally since this is an unusual type of asset for a Council to own, and its valuation basis is subject to a large degree of subjectivity. Management have valued the asset at cost but have since undertaken a market valuation which we believe to be most appropriate. We are awaiting responses to our follow up queries on this valuation.	TBC

Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements – key judgements and estimates (continued)

This section provides commentary on key estimates and judgements in line with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Investment properties - £10.3m	The Council has a number of assets that it has determined to be investment properties. Investment properties must be included in the balance sheet at fair value (the price that would be received in an orderly transaction between market participants at the measurement date) so these assets are valued every year with a revaluation date of 1 April 2020. The Council's internal valuer completes the valuation of these properties. The year end valuation of the Council's investment property was £10.3m, a net decrease of £1m from 2019/20.	• We have no concerns over the competence, capabilities and objectivity of the internal valuation expert used by the Council. • The valuer has agreed clear terms of reference for this work with the Council in advance of the work being performed, including within which were the assumptions that were going to be applied to this work • There have been no changes to the valuation method this year • We have considered the potential movements in the valuations at the valuation date of 1 April 2020 and the 31 March 2021. This work has not raised any issues with the 2020/21 valuations. • The Council's internal valuer has identified a material uncertainty regarding the valuation of retail and specific trading related assets and sectors due to market uncertainty arising from the Covid-19 pandemic. Management have disclosed this as a major source of estimation uncertainty in Note 4 to the financial statements. We have assessed the likelihood a material difference between the Councils valuation of investment properties against national trends reported by Gerald Eve acting as the Auditors' Expert. We have concluded there is no material misstatement in valuation. We have selected a sample of 20 investment property valuations to test for appropriate use of valuation assumptions and input data. At the time of issuing this report this testing is not yet complete, however no issues have been noted to date.	TBC

Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates (continued)

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Net pension liability: £61.2m (PY £49.1m)	The Council's net pension liability at 31 March 2021 is £61.2m (2020/21 £49.2m) comprising the Lancashire Pension Fund local government and unfunded defined benefit pension scheme obligations. The Council uses Mercers to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £12m net actuarial loss during 2020/21. Note 2 Assumptions and Major Sources of Estimation Uncertainty made reference to a material valuation uncertainty regarding investment valuation. Management agreed to remove reference to this uncertainty as it was not relevant to the 31 March 2021 position.	• We have assessed the Council's actuary, Mercer, to be competent, capable and objective • We have performed additional tests in relation to accuracy of contribution figures, benefits paid, and investment returns to gain assurance over the 2020/21 roll forward calculation carried out by the actuary and have no issues to raise. • We have confirmed the controls and processes over the completeness and accuracy of the underlying information used to determine the estimate • We have confirmed there were no significant changes in 2020/21 to the valuation method • We are satisfied with the reasonableness of estimate of the net pension liability • We have used PwC as our auditor expert to assess the actuary and assumptions made by the actuary – see table below for our comparison of actuarial assumptions:	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Assumption	Actuary Value	PwC value / range	Assessment
Discount rate	2.1%	1.9-2.2%	●
Pension increase rate	2.7%	2.4-2.85%	●
Salary growth	4.2%	3.6% - 4.2%	●
Life expectancy (post 65) – Males currently aged 45 / 65 (years)	23.9/ 22.4	21.8-24.7/ 20.4-23.2	●
Life expectancy (post 65) – Females currently aged 45 / 65 (years)	26.9 25.1	24.8-27.7/ 23.3-25.8	●

Conclusion

We have concluded that management's estimate is reasonable and based on appropriate assumptions in the context of the accounting framework and the Council's circumstances.

2. Financial Statements - key judgements and estimates (continued)

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Provisions for NNDR appeals - £1.12m	The Council is liable for successful appeals against business rates charged to business in 2020/21 and earlier financial years in their proportionate share. A provision has therefore been made for the best estimate of the amount that businesses have been overcharged up to 31 March 2021. The estimate has been calculated using the latest Valuation Office Agency (VOA) ratings list of appeals and the analysis of successful appeals to date. The provision has decreased by £1.9m from 2019/20.	• Our work on this estimate is substantially complete. We have not noted any issues with the completeness and accuracy of the underlying information used to determine the estimate. • We have considered the approach taken by the Council to determine the provision, and it is in line with that used by other local government bodies • We note that the Council does not include any provision for as yet un-lodged but expected appeals. The Council has indicated this is not a material amount and we are awaiting evidence to support this. • Disclosure of the estimate in the financial statements is considered adequate. • There have been no changes to the calculation method this year.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates (continued)

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Grants Income Recognition £49.2m (PY £31.6m) Due to the Covid-19 pandemic there has been a significant increase in the level of Covid related grant funding with associated complexity and management judgement required. This has comprised a mix of discretionary and non discretionary schemes. The majority has been grants to business including £26.5m Small Business Grant Fund including Retail, Hospitality and Leisure	Management take into account three main considerations in accounting for grants: • whether the authority is acting as the principal or agent and particularly whether it controls the goods or services before they transfer to the service recipient. Management's assessment needs to consider all relevant factors such as who bears credit risk and responsibility for any overpayments, who determines the amount, who sets the criteria for entitlement, who designs the scheme and whether there are discretionary elements. • whether there are conditions outstanding (as distinct from restrictions) that would require the grant to be recognised as receipt in advance, otherwise grant should be recognised as income • whether the grant is a specific or non-specific grant. General un-ringfenced grants are disclosed on the face of the CIES, whereas ringfenced grants are required to be credited to service revenue accounts. There may be significant judgements over the accounting treatment. Different conclusions may be reached by authorities depending on how they have applied any discretion in administering the schemes.	• We have substantively tested a sample of grants across categories; and reviewed management's assessment as to whether the Council is acting as the principal or agent, for the 8 grants identified by the Council relation to covid-specific business support funding. • For the sample selected we have reviewed the completeness and accuracy of the underlying information used to determine whether there are conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income • We have also assessed for the sample of grants received, whether the grant is specific or non specific grant (or whether it is a capital grant) – which impacts on where the grant is presented in the CIES. We have concluded that management's judgement is reasonable and sufficiently disclosed to meet the requirements of IAS20 based on the terms of the grant and how they have applied it • We have assessed the adequacy of disclosure of grants received and judgement used by management. Our work in this area is not yet complete however no issues have been identified to date.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Assessment

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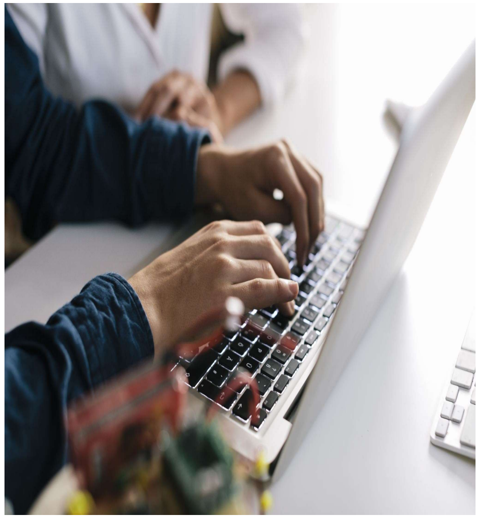
2. Financial Statements - Internal Control

Assessment	Issue and risk	Recommendations
●	**Preparation of draft financial statements** Subsequent to the draft financial statement being submitted for audit, a number of changes needed to be made. Whilst we acknowledge the timetable for submission of draft accounts was met, it is important that the Council carry out quality review procedures to ensure adherence to reporting requirements within the statements.	We acknowledge the difficulty of preparing the accounts during the pandemic but recommend management put in place robust quality review procedures to ensure draft financial statements are compliant with requirements and of a good quality. **Management response** Management undertook an exercise to review the working paper arrangements following publication of the draft accounts. The review highlighted that the previous working papers were referencing incorrect information. These have been amended so that the process is automated for future years and these errors won't re-occur. Management will ensure that sufficient time is built into the timetable to undertake a thorough pre-publication review in future years. Staffing pressures contributed to the shortening of the 2020/21 account review period.
●	**Journals system control environment** Some control issues were noted regarding the journal posting environment: - Three journals were posted by the Section 151 Officer. We would not normally expect senior finance personnel to post journals as there is naturally less oversight of this and it can present a risk that controls could be overridden. We tested these journals and did not find any issues. We recommend going forward that the S151 officer does not post journals. - One journal was posted by a finance user who had left the Council several years ago. We tested this journal and established this was an oversight as a result of a feeder template not being amended. However, there is a risk that the potential for fraud could arise if historical accounts are not fully disabled. - Four finance users were found to have full system administration access. There is a risk that inappropriate system changes or user access changes are made. We note however that there are compensating controls in that only I.T. can enable new finance users.	- It is considered best practice that the Section 151 Officer does not have the ability to post journals. - Management should ensure that terminated employees and their user IDs are completely removed from all system access. - A system edit log report should be run by I.T. on a monthly basis to ensure that all Finance user administration activity is appropriate and transparent. **Management response** These arrangements were put in place during the pandemic due to staff shortages and increased workloads resulting from the various support packages being provided on behalf of the Government. This was to ensure that the accounts were prepared in a timely manner and to provide some resilience whilst having to operate remotely. System controls were in place to disable the accounts of staff that had left the authority. However, one of the references used on the templates had not been disabled, which has now been done. Management will ensure that a system edit log is place and reviewed on a timely basis in accordance with the recommendations.

Assessment
- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

2. Financial Statements - other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.



Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit and Standards Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council, which is included in the Audit and Standards Committee papers.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to bank and investment counterparties. This permission was granted and the requests were sent. All requests were returned with positive confirmation.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements, other than those mentioned in Appendix C - disclosure misstatements.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided. Our findings are subject to the satisfactory completion of our work and the matters set out on page 3.

2. Financial Statements - other communication requirements

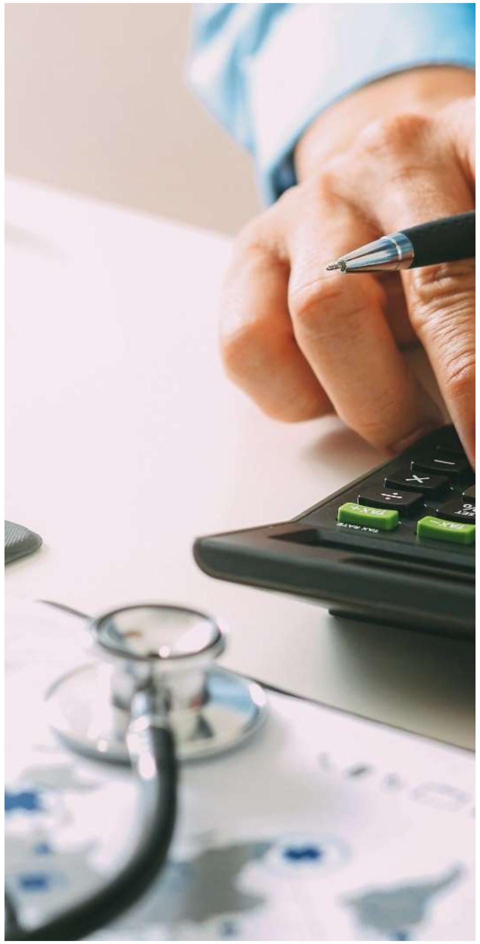
Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Council and the environment in which it operates • the Council's financial reporting framework • the Council's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements including the Annual Governance Statement and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified other than minor presentational matters, the majority of which have been adequately rectified by management. These are reported at Appendix C. We plan to issue an unmodified opinion in this respect as reported at Appendix E.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money. We have nothing to report on these matters, although the Value for Money work is underway and due to be completed by the end of February 2022.
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. We are currently awaiting the guidance and instructions in relation to this work. In previous years the work has not been require at this Council as the Council does not exceed the threshold set by the NAO. We expect this to be the case in 2020/21.
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2020/21 audit of Burnley Borough Council in the audit report, due to incomplete VFM work.



3. Value for Money arrangements

Revised approach to Value for Money work for 2020/21

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

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

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria.
- Auditors undertaking sufficient analysis on the Council's VFM arrangements to arrive at far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

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

Improving economy, efficiency and effectiveness

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

Financial Sustainability

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

Governance

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

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:

Statutory recommendation

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

Key recommendation

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

Improvement recommendation

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

3. VFM - our procedures and conclusions

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay has been issued to the Chair of the Audit and Standards Committee. We expect to issue our Auditor's Annual Report by the end of February 2022. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified the risk set out in the table below.

We have performed further procedures in respect of this risk and have completed this element of our VFM work and did not identify any risks of significant weakness. Our work is continuing on the other elements of VFM which we will report in our Auditor's Annual Report in due course.

Risk of significant weakness	Procedures undertaken	Commentary	Outcome
Financial Sustainability The impact of Covid-19 and continuing uncertainty over future government funding means the Council continues to face future financial uncertainty. Pressures going forward include increasing demands for services, economic recovery from the pandemic and the achievement of strategic objectives, including funding support for major developments. The Council's Medium Term Financial Strategy 2022-26 indicates a potential £4.1m cumulative budget gap over the 3 year period, assuming a 2% reduction in core spending. The Council recognises that to ensure financial balance in the longer term it will be required to deliver savings through strategic prioritisation, service transformation and continuous improvement.	Our work included: • reviewing the in-year budget monitoring reports and outturn • reviewing the Council's assessment of the Covid-19 impact and how the 2020/21 budget is being managed in the light of this. • reviewing the MTFS 2022-26 and 2021/22 budget projections • examining the progress the Council is making for developing future savings and efficiencies to close any medium term funding gaps	The Council is operating within a financially challenging environment, particularly within the context of continuing austerity. It set a one-year budget for 2020/21 (approved in February 2020, and prior to the Covid-19 global pandemic). The budget included the requirement to deliver £596k savings from budgets and a further £213k operational/salary savings to arrive at a balanced budget position. The outbreak of the Covid-19 coronavirus pandemic had a significant impact on the normal operations of the Council and led to substantial financial pressures. As 2020/21 progressed the government provided additional direct funding of £2.486m which was largely directed at tackling homelessness and alleviating pressures from reduced income and additional Covid-19 costs. The Government also provided support for losses of income from sales, fees and charges and a number of other Covid related funding streams. The Council continued to monitor the impact of the revenue budget and the impact of Covid 19 pressures through quarterly financial monitoring reports to Executive and Council. Reports provided the forecast outturn positions and the impacts arising from Covid-19.	Improvement recommendation We recommend the Council continues to closely monitor the delivery of its savings and cost reduction plans as part of the achievement of its Medium Term Financial Strategy (MTFS) and strategic objectives. It will need to ensure it has robust plans in place to ensure it is able to bridge any future funding gaps that may arise.

3. VFM - our procedures and conclusions (continued)

Risk of significant weakness	Procedures undertaken	Commentary	Outcome
Financial Sustainability The impact of Covid-19 and continuing uncertainty over future government funding means the Council continues to face future financial uncertainty. Pressures going forward include increasing demands for services, economic recovery from the pandemic and the achievement of strategic objectives, including funding support for major developments. The Council's Medium Term Financial Strategy 2022-26 indicates a potential £4.1m cumulative budget gap over the 3 year period, assuming a 2% reduction in core spending. The Council recognises that to ensure financial balance in the longer term it will be required to deliver savings through strategic prioritisation, service transformation and continuous improvement.	Our work included: • reviewing the in-year budget monitoring reports and outturn • reviewing the Council's assessment of the Covid-19 impact and how the 2020/21 budget is being managed in the light of this. • reviewing the MTFS 2022-26 and 2021/22 budget projections • examining the progress the Council is making for developing future savings and efficiencies to close any medium term funding gaps	The Council reported a pre-audit overall revenue outturn underspend of £31k for 2020/21. This is a net position after the application of Covid-19 funding to cover the additional expenditure and losses of income directly related to the pandemic. General Fund reserves, including earmarked reserves, have increased to £23.09m as at 31 March 21 (from £10.9m as at 31 March 20). The increase in earmarked reserves includes a new £5.264m Collection Fund Deficit Reserve to offset business rates reliefs given to businesses during lockdown and £1.589m Covid-19 Reserve set aside for future Covid-19 pressures. The Council updated its revenue budget 2021/22 in February 2021 which requires the Council to deliver £182k savings to balance the budget. It also agreed its Medium-Term Financial Strategy (MTFS) 2022/23 to 2025/26 which sets out the financial challenge faced by the Council in the medium term. This identifies a potential funding gap of £4.1m (27% of the 2021/22 net budget of £15.416m) over the 4 year period, assuming a 2% reduction in core spending. The MTFS is continually revisited and at the end of September 2021 the Council reported that the required level of savings remained unchanged. The Council has identified £709k savings in 2022/23 for approval with a remaining unidentified balance of savings required of £2.73m over the period 2022/25. The total savings requirement increases to £5.1m if there is a 4% reduction in core spending power. The Council anticipates that a substantial part of the Council's strategic earmarked reserves will be at, or below, their recommended minimum level by the end of the MTFS period. The Council continues to monitor the adequacy of its strategic reserves in line with updates to its MTFS and the General Fund reserve remains at its recommended level.	

3. VFM - our procedures and conclusions (continued)

Risk of significant weakness	Procedures undertaken	Commentary	Outcome
Financial Sustainability The impact of Covid-19 and continuing uncertainty over future government funding means the Council continues to face future financial uncertainty. Pressures going forward include increasing demands for services, economic recovery from the pandemic and the achievement of strategic objectives, including funding support for major developments. The Council's Medium Term Financial Strategy 2022-26 indicates a potential £4.1m cumulative budget gap over the 3 year period, assuming a 2% reduction in core spending. The Council recognises that to ensure financial balance in the longer term it will be required to deliver savings through strategic prioritisation, service transformation and continuous improvement.	Our work included: • reviewing the in-year budget monitoring reports and outturn • reviewing the Council's assessment of the Covid-19 impact and how the 2020/21 budget is being managed in the light of this. • reviewing the MTFS 2022-26 and 2021/22 budget projections • examining the progress the Council is making for developing future savings and efficiencies to close any medium term funding gaps	The Council presented its second quarterly (Q2) monitoring report 2021/22 to Executive in December 2021 which included an update on the net budget forecast, reserves position and progress with delivery of agreed savings. The report reflected the ongoing uncertainty from the Covid-19 pandemic in preparing accurate year end forecasting, with the current position a forecast £86k deficit. The Council reported £46k salary savings achieved (against a target £169k for the year) and no non-salary savings due to pressures on income and expenditure from the Covid-19 pandemic (the non salary savings target for the year is £79k). The Council continues to face future financial pressures from ongoing Covid-19 expenditure and reductions in income levels. The Q2 report identifies additional shortfalls in income and increases in expenditure of £669k which taken with savings gaps and after central government funding results in the forecast deficit of £86k. The Council recognises that to ensure financial balance in the longer term it will be required to deliver savings through strategic prioritisation, service transformation and continuous improvement.	Conclusion Overall whilst the Council continues to face significant financial pressures we consider the financial management arrangements are sound. The Council acknowledges that it is essential that it continues to identify and implement robust action plans to ensure savings remain on track. It will need to ensure it is clear on service prioritisation, areas of improvement focus and develop longer term transformational plans to ensure a balanced budget and delivery of financial stability in the future.

4. Independence and ethics

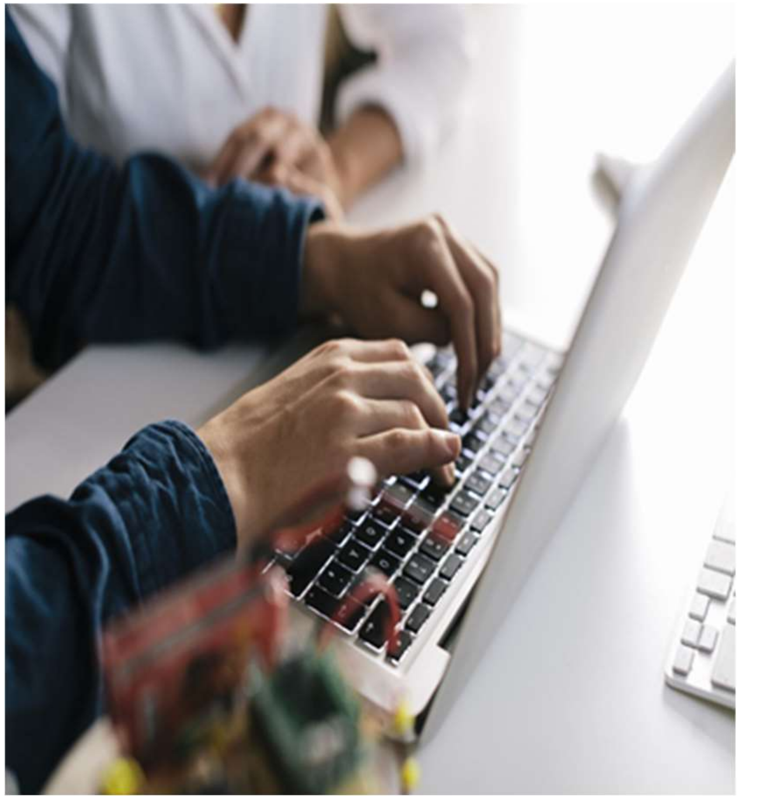
We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)



4. Independence and ethics

Audit and non-audit services

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

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of housing benefits subsidy claim	24k	Self-Interest (because this was a recurring fee) Self review (because GT provides audit services)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £24,000 in comparison to the total fee for the audit of £60,437 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

Appendices

A. Action plan – Audit of Financial Statements

We have identified 5 recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2021/22 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to report to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Medium	**Journals control environment** Some control issues were noted regarding the journal posting environment: - Three journals were posted by the Section 151 Officer. We would not normally expect senior finance personnel to post journals as there is naturally less oversight of this and it can present a risk that controls could be overridden. We tested these journals and did not find any issues. We recommend going forward that the S151 officer does not post journals. - One journal was posted by a finance user who had left the Council several years ago. We tested this journal and established this was an oversight as a result of a feeder template not being amended. However, there is a risk that the potential for fraud could arise if historical accounts are not fully disabled. - Four finance users were found to have full system administration access. There is a risk that inappropriate system changes or user access changes are made. We note however that there are compensating controls in that only I.T. can enable new finance users. We recommend: - It is considered best practice that the Section 151 Officer does not have the ability to post journals. - Management should ensure that terminated employees and their user IDs are completely removed from all system access. - A system edit log report should be run by I.T. on a monthly basis to ensure that all Finance user administration activity is appropriate and transparent.	**Management response** These arrangements were put in place during the pandemic due to staff shortages and increased workloads resulting from the various support packages being provided on behalf of the Government. This was to ensure that the accounts were prepared in a timely manner and to provide some resilience whilst having to operate remotely. System controls were in place to disable the accounts of staff that had left the authority. However, one of the references used on the templates had not been disabled, which has now been done. Management will ensure that a system edit log is place and reviewed on a timely basis in accordance with the recommendations.
Medium	Preparation of draft financial statements Subsequent to the draft financial statement being submitted for audit, a number of changes needed to be made. Whilst we acknowledge the timetable for submission of draft accounts was met, it is important that the Council carry out quality review procedures to ensure adherence to reporting requirements within the statements. This has meant that additional audit resource has been needed to understand and document changes made to the accounts by management. We acknowledge the difficulty of preparing the accounts during the pandemic but recommend management put in place robust quality review procedures to ensure draft financial statements are compliant with requirements and of a good quality.	**Management response** Management undertook an exercise to review the working paper arrangements following publication of the draft accounts. The review highlighted that the previous working papers were referencing incorrect information. These have been amended so that the process is automated for future years and these errors won't re-occur. Management will ensure that sufficient time is built into the timetable to undertake a thorough pre-publication review in future years. Staffing pressures contributed to the shortening of the 2020/21 account review period.

Assessment

- High priority
- Medium priority -
- Low priority

A. Action plan – Audit of Financial Statements (continued)

Assessment	Issue and risk	Recommendations
Medium	Valuation basis for assets brought into use The new Sandygate student accommodation block was brought into use but not formally revalued as at 31 March 2021. The CiPFA Code requires that when a former asset under construction is brought into use it is revalued at that point. Therefore the Council's accounting was not in line with the CIPFA Code requirements, and carries the risk that the asset is material misstated at the balance sheet date. We are continuing our assessment of this but going forward would recommend that full valuations are factored in to the revaluations programme for assets due to come into use in a given year.	**Management response**
Medium	Date of asset valuations The valuation date of 1 April, compared to the balance sheet date of 31 March, gives rise to the risk of material misstatement due to market factors arising in a calendar year, which can be significant especially in uncertain times. We would recommend that valuation of land and buildings is undertaken as at 31 March of the year of the accounts.	Management response In previous years a desktop exercise has been completed at the year end to assess whether a significant event has taken place that would affect the valuations undertaken throughout the year. Management will amend the date of future valuations to the 31 March date to remove this risk.
Medium	Assets not revalued in the year We have challenged management's assessment that assets not revalued in year are materially stated at the balance sheet date. Management have not formally considered this by way of detailed calculations. We would recommend that management complete there own assessment to confirm the value of assets not valued are fairly stated.	Management response The Council's internal valuer undertakes a desktop exercise at the end of each financial year, to assess whether a significant event has taken place that would affect the valuations not undertaken that financial year. Management will formalise this approach for future years.

Assessment

- High priority
- Medium priority -
- Low priority

B. Follow up of prior year recommendations

We identified the following issues in the audit of Burnley Borough Council's 2019/20 financial statements, which resulted in 5 recommendations being reported in our 2019/20 Audit Findings report.

We have followed up on the implementation of our recommendations and note the progress made to address the issues raised in the table.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
x	Rolling asset valuations Management did not provide sufficient analysis to support the assertion that assets not revalued in 2019/20 as part of the rolling programme of valuations were materially accurate at the balance sheet date. We recommended the Council improve the assessment of the changes in values for assets not included each year. They should consider additional factors that may affect the valuation and seek input from the internal valuer as management's expert.	Management continue to rely solely on the five-yearly rolling programme to support the relevance of the valuation of the entire estate as at each balance sheet date.
✓	Depreciation and asset useful economic lives The Council review the useful economic lives (UELs) of its buildings when spend is made rather than upon revaluation. We recommended that the asset UELs should be revisited as part of the revaluation to ensure that the depreciation charges are accurately calculated.	UELs have been revisited and fully depreciated assets have been removed from the asset register where no longer operational.
✓	VfM financial sustainability Delivery of individual identified savings schemes and activities are not monitored and reported to the Executive and Full Council. Consequently, the Council is not aware if the agreed savings schemes are being delivered as planned. We recommended the Council should monitor and report delivery of individual identified savings areas as well as those not yet identified throughout the year.	See full detailed commentary on progress during 2020-21 in the value for money section of this report

B. Follow up of prior year recommendations (continued)

Assessment	Issue and risk previously communicated: IT control recommendations	Update on actions taken to address the issue
✓	VfM financial sustainability The Council faces significant financial challenge in 2021/22 and beyond. It should focus on the identification of its savings plans for the next three years to ensure these can be actioned promptly and are focused on sustainable solutions.	See full detailed commentary on progress during 2020-21 in the value for money section of this report.
✓	VfM capital schemes The Pioneer Place Capital scheme may not be financially viable if COVID-19 continues to impact on the leisure and retail market The Council should continue to actively manage and report progress on the Pioneer Place capital scheme as it progresses, to ensure it remains financially viable.	The Council, together with its delivery partners, is actively managing and reviewing the Pioneer Place scheme, to ensure that it remains financially viable, taking into account various environmental factors, including Covid-19. To achieve this aim, the Council has reduced the size of the scheme, reduced the annual rental income targets, and brought in additional external funding. These changes were reported and approved at Full Council in November 2020. Officers and delivery partners continue to actively monitor and report progress on the scheme. The vfm work in this area is in progress and will be completed in line with the NAO required timescales.

C. Audit Adjustments

Impact of adjusted misstatements

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

We have not identified misstatements requiring adjustment impacting the primary statements and the reported net expenditure for the year ending 31 March 2021. The Primary Statements comprise the Comprehensive Income and Expenditure Statement, Statement of Movement in Reserves, Balance Sheet and Cash Flow Statement. The Audit and Standards Committee is required to approve management's proposed treatment of all items where processed.

Impact of unadjusted misstatements

We have identified misstatements requiring adjustment impacting the primary statements and the reported net expenditure for the year ending 31 March 2021. The Primary Statements comprise the Comprehensive Income and Expenditure Statement, Statement of Movement in Reserves, Balance Sheet and Cash Flow Statement. The Audit and Standards Committee is required to approve management's proposed treatment of all items where not processed.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total comprehensive income and expenditure £'000	Reason for not adjusting
The 2019/20 Covid-19 revenue support grant was received prior to year end without conditions and should therefore be accounted for in the year of receipt, rather than in the year of expected use ie 2020/21. Current year income is therefore overstated.	75	(75)	75	Management expected to receive the funds in the new year.
Costs of £449k relating to the NW Growth Corridor scheme in Q4 were not accrued for, and were subsequently invoiced by the Environment Agency. A subsequent debtor was therefore not raised to LCC. Income, expenses, debtors and creditors are therefore understated in 20/21 and overstated by this amount in 21/22. There is no net effect on the surplus/deficit position.	449 (449)	449 (449)	0	Not material enough to warrant amendment.
A provision liability of £62k has been included in relation to the Council's pension guarantees granted to bodies where LGPS staff have transferred. Since the entities have not failed to pay their pension contributions, we do not believe that the Council has a current liability. The in-year increase of £17k is therefore overstated.	(17)	62	(17)	Management believe that provision accounting is appropriate in this instance.
The new Sandygate student accommodation block is held at cost rather than current value as required by the Code. The Council have subsequently determined the current value as not being materially different to the carrying value. *Agreement of current value appropriateness subject to audit queries resolution*	TBC	TBC	TBC	
Overall impact	**£58**	**£13**	**£58**	

C. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Auditor recommendations	Adjusted?
Material corrections made to Note 12E Financial Liabilities opening figures as at 31/3/20, since the prior year figures were not brought forward accurately.	Comparative figures must be accurately stated in line with the prior year's signed accounts. Management response Adjusted appropriately.	✓
Material corrections needed for Note 16 Provisions to reflect that no additional business rate appeal provisions were charged in the year.	No impact on opening and closing provision however movement lines must be accurately presented. Management response Adjusted appropriately.	✓
The updated accounting policies have not been included in the draft financial statements. The prior year 2019/20 accounting policies have been left in.	Updated accounting policies must be presented. Management response Adjusted appropriately.	✓
The accounting policy for depreciation should be clarified with regards to the depreciation method used for Vehicles, Plant and Equipment. It is not clear whether the straight line or reducing balance method is used.	The depreciation method should be clarified. Management response Adjusted appropriately. These assets are depreciated on a straight line basis.	✓
Information relating to the material estimation uncertainty of property valuations has been repeated in both Note 2 (Critical judgements in applying accounting policies) and Note 4 (Sources of material estimation uncertainty).	This information should be disclosed once in the most appropriate place. Management response Amended to only describe the estimation uncertainty in Note 4 (Sources of estimation uncertainty).	✓
Clarification needed to Note 4 with regards to the material valuation uncertainty clause which only relates to Investment Properties and not Operational Land and Buildings.	The clause must be very clear to the reader and to ensure consistency with the auditor's emphasis of matter paragraph within the audit opinion. Management response Adjusted appropriately.	✓
An investment property disposed of for £99k was incorrectly classified as revalued to zero as opposed to disposed. The gain on disposal is therefore overstated by the same amount, however there is no impact on the Surplus/Deficit on provision of services.	The investment property transactions should be accurately presented. Management response Not adjusted due to materiality and complexity of amendments needed.	x

C. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Auditor recommendations	Adjusted?
Disclosure corrections made to the CIES, since Investment Property rental income of £808k had been incorrectly included 'above the line' and not in the Financing and Investment section.	Ensure that primary statements are thoroughly checked prior to issuing draft financial statements. Management response Adjusted appropriately.	✓
Various formatting and reconciliation issues were noted in the draft Note 6 (Expenditure and Income Analysed by Nature).	Ensure that primary statements are thoroughly checked prior to issuing draft financial statements. Management response Management decided to redesign the Note 6 (Expenditure and Income Analysed by Nature) disclosure table for simplicity, greatly reducing the number of columns used.	✓
IFRS 16 (Leases) which comes into effect for Public Sector bodies from 1 April 2022, has been left out of Note 1 (Accounting standards issued but not adopted)	This standard should be listed in the note as it is still waiting to be adopted. Management response Adjusted appropriately.	✓
Note 26 Related Parties The disclosure for Members' allowances and expenses paid in year, refers to 2019/20, and the total amount quoted is slightly out from the working provided.	The year should be showing as 2020/21 members' expenses and the amount presented should match the workings.(£223,678). Management response Adjusted appropriately.	✓
Material disclosure errors noted in Note 25 Grant Income with relation to the Revenue Support Grant and the Section 31 Business Rates Compensation Grant	The grants must be presented accurately, and the total must reconcile to the CIES. Management response Adjusted appropriately.	✓
Note 13- Presentational error of 79k found where the in year transactions for the Council Tax Payers Impairment Allowance needed to be reallocated to the trade receivables and the housing benefit receivables impairment lines.	The impairment allowances must be presented accurately. Management response Adjusted appropriately.	✓

C. Audit Adjustments (Previous year)

Impact of prior year unadjusted misstatements made during the previous year audit

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2019/20 financial statements. These items have no material impact on the financial statements for 2020/21.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total comprehensive income and expenditure £'000	Reason for not adjusting
The Covid-19 revenue support grant was received prior to year end without conditions and should therefore be accounted for in the year of receipt, rather than as a grant received in advance.	75	75	75	Management expected to receive the funds in the new year.
Overall impact	**£75**	**£75**	**£75**	

D. Fees

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

*Audit fees	Proposed fee	Final fee
Council Audit	£60,437	TBC
Total audit fees (excluding VAT)	£60,437	TBC

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services Housing Benefit claim	£24,000	£24,000
Total non-audit fees (excluding VAT)	**£24,000**	**£24,000**

The fees reconcile to the financial statements following amendment to the draft accounts in note 32 (External Audit Costs).

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