

The Annual Audit Letter for Burnley Borough Council

Year ended 31 March 2017

11 September 2017

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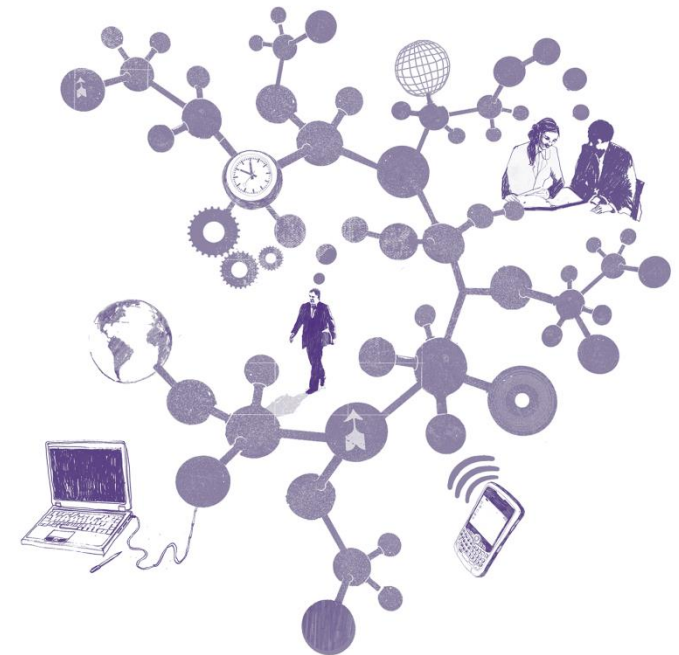
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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work we have carried out at Burnley Borough Council (the Council) for the year ended 31 March 2017.

This Letter provides a commentary on the results of our work to the Council and its external stakeholders, and highlights issues we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit and Standards Committee (as those charged with governance) in our Audit Findings Report on 26 July 2017.

Our responsibilities

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

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

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

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 26 July 2017.

Value for money conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2017. We reflected this in our audit opinion on 26 July 2017.

Certificate

We certified that we had completed the audit of the accounts of Burnley Borough Council in accordance with the requirements of the Code on 26 July 2017

Certification of grants

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2017. We will report the results of this work to the Audit and Standards Committee in our Annual Certification Letter.

Working with the Council

During the year we have met regularly with the Chief Executive and Head of Finance. We have continued to share the firm's national publications and provide thought leadership in emerging issues that impact on the public sector.

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

Audit of the accounts

Our audit approach

Materiality

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

We determined materiality for our audit of the Council's accounts to be £1.19 million, which is 2% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality for senior officer remuneration and related party transactions.

We set a lower threshold of £59,400, above which we reported errors to the Audit and Standards Committee in our Audit Findings Report.

The scope of our audit

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

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

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts included in the Statement of Accounts on which we gave our opinion.

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

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

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

Audit of the accounts

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of property, plant and equipment The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.</p>	<p>We completed the following work:</p> <ul style="list-style-type: none"> • reviewed management's processes and assumptions for the calculation of the estimate. • reviewed of the competence, expertise and objectivity of the Valuer. • reviewed the instructions issued to valuation experts and the scope of their work • held discussions with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions. • reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding. • tested revaluations made during the year to ensure they were input correctly into the Council's asset register • evaluated the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value. 	<p>Our audit work did not identify any significant issues.</p>
<p>Valuation of pension fund net liability The Council's pension fund net liability, as reflected in its balance sheet, represents a significant estimate in the financial statements.</p>	<p>We completed the following work:</p> <ul style="list-style-type: none"> • identified the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement. • obtained assurance from the auditor of the Pension Fund on the controls in place over accuracy of information provided to the actuary. • reviewed the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation. • gained an understanding of the basis on which the valuation is carried out. • carried out procedures to confirm the reasonableness of the actuarial assumptions, made including the use of an audit expert and considered whether known outturns are within acceptable tolerances to confirm the reasonableness of the actuary's approach • reviewed the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary. 	<p>Our audit work did not identify any significant issues.</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 26 July 2017, in advance of the 30 September 2017 national deadline.

The Council made the accounts, together with comprehensive working papers available for audit on 31 May 2017, in line with the agreed timetable. The finance team responded promptly and efficiently to our queries during the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Council to the Audit and Standards Committee on 26 July 2017.

The key messages arising from our audit of the Council's financial statements were:

- the draft accounts were of a good standard and there were no significant amendments required to the main financial statements;
- our audit did not identify any adjustments affecting the Council's expenditure or level of useable reserves
- the audit matters related mainly to disclosure matters regarding the financial statements and supporting notes; and
- due to the good standard of the draft accounts and supporting working papers it was not necessary to raise any actions or recommendations.

Annual Governance Statement and Narrative Report

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

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council.

Other statutory duties

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We did not identify any issues that have required us to apply our statutory powers and duties under the Act.

Value for Money conclusion.

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2016 which specified the criterion for auditors to evaluate:

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

Key findings

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

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

Overall VfM conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2017.

Value for Money

Table 2: Value for money risks

Risk identified	Work carried out	Findings and conclusions
<p>Management provide regular updates to members detailing the Council's medium-term financial position. Whilst the Council has been successful in recent years in reducing the Council's net expenditure, the Council still needs to find significant savings over the period 2018-2020.</p> <p>This links to the Council's arrangements for sustainable resource deployment</p>	<p>Reviewed the Outturn position for 2016/17</p> <p>Reviewed the latest medium term financial plan to confirm that it reflects an accurate assessment of the Council's financial position and consideration of the progress made by officers in developing plans to address that gap.</p> <p>Reviewed evidence that the Council has taken sufficient steps to ensure it has a realistic expectation that the savings required can be achieved.</p>	<p>The Council has a good understanding of its financial position and has historically been able to deliver savings as required. In 2016/17 a significant part of the savings have been achieved through the delivery of a strategic partnership whereby a range of council services are now being delivered in partnership with an external service provider.</p> <p>The 2016/17 revenue outturn reported is generally consistent with that originally anticipated.</p> <p>In determining the Council's net budget of £15,223k, the Council had originally estimated the budget would be supported by £1,057k from general fund (earmarked) reserves although £839k would also be added to earmarked revenue reserves. During the year, the budget was revised to utilise a further £157k of reserves. The actual revenue outturn delivered a surplus of £377k which has been added to earmarked reserves to give a total at 31 March 2017 of £8,032k.</p> <p>The Council originally set a capital budget of £6,931k, subsequently revised to £7,501k following further approvals. The outturn was £6,789k, with almost all of the variance of £712k being carried forward to 2017/18.</p> <p>The Council set a balanced budget for 2017/18 at its meeting in February 2017. The net budget of £14,596k included updated forecasts for: necessary budget growth; business rates growth, council tax increases, new commercial approach to fees and charges and use of strategic earmarked reserves. The 2017/18 budget setting process also included updating the three year budget forecast for the Medium Term Financial Strategy (MTFS) to 2020/21. The MTFS sets out the required cumulative budget reduction of £4,016k which equates to 27.5% of the Net Budget over the 3 year period.</p> <p>The Medium Term Financial Strategy (MTFS) clearly sets out the assumptions that have been made about future levels of income and expenditure, clearly identifying any risks attached to them and demonstrating an accurate assessment of the Council's financial position.</p> <p>The Council has a strong track record of delivering efficiency savings and its commercial strategy which includes improving procurement and optimising income from fees and services, remains a key part of addressing the medium term budget shortfall. The ongoing drive to improve internal efficiencies through its plans for automation and 'self service' are part of the organisation development strategy. The Council's strong relationships with its strategic partner and other local authorities are helping develop the plan to achieve these objectives.</p> <p>We have concluded that the Council has effective arrangements in place for sustainable resource deployment.</p>

Appendix A: Reports issued and fees

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

Fees

	Proposed fee £	Actual fees £
Statutory audit of Council	50,567	50,567
Housing Benefit Grant Certification	9,675*	TBC
Total fees (excluding VAT)	60,242	TBC

* Housing Benefit Grant Certification work is still underway. The final fee will be confirmed in due course.

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA). Fee variations are subject to approval by Public Sector Audit Appointments Ltd.

Reports issued

Report	Date issued
Audit Plan	8 March 2017
Audit Findings Report	26 July 2017
Annual Audit Letter	September 2017

Fees for other services

Service	Fees £
Audit related services:	Nil
Non-audit services	
Ethics training workshop 2016	6,776

Non- audit services

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

Reports issued and fees continued

We have considered whether other services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards have been applied to mitigate these risks.

Non-audit service	Service provided to	Fees (£)	Threat identified	Safeguards
Ethics training workshop 2016	Burnley Borough Council	£6776	None	Workshop developed using advisory expertise from the Grant Thornton's Local Government Advisory team, which is separate from the audit team. Audit team input limited to facilitation support.
	TOTAL	£6776		

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



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