

Annual Audit Letter

Burnley Borough Council

Audit 2008/09

December 2009



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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
 - any third party.
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Key messages

This report summarises the findings from our 2008/09 audit. It includes messages arising from the audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Audit Opinion

- 1 I issued an unqualified audit opinion on 29 September 2009.

Financial Statements

- 2 The statement of Accounts was approved by the Audit Committee on 24 June 2009 following a comprehensive report and explanation by the Head of Finance. The accounts submitted for audit at the beginning of July 2009 were free from material error or misstatement. A number of minor amendments were made to the accounts and my Annual Governance Report identified two unadjusted amendments which were not material to my opinion on the accounts.

Use of Resources

- 3 I have completed my Use of Resources assessment at the Council. This is the first year of the Audit Commission's new methodology for assessment of the use of resources which seeks to evaluate how well the Council is managing and using its resources to deliver value for money and better sustainable outcomes for local people. The Council achieved an overall score of 2 which means the Council is performing adequately. Further detail is set out in the report below.

Value for money

- 4 I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. From 2008/09, the Audit Commission will specify each year, which of the use of resources KLOE are the relevant criteria for the VFM conclusion at each type of audited body.
- 5 I issued an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

Comprehensive Area Assessment and organisational assessment

- 6 The Audit Commission introduced a new assessment regime during 2009, Comprehensive Area Assessment, and therefore this new assessment cannot be easily compared with the 2008 reported position for the Council. The context within which Burnley Borough Council operates is very challenging given the deep rooted deprivation in the Borough that marks Burnley out as one of the most deprived District Councils in the Country. This new assessment aims to review the performance of local partners in delivering better outcomes for local people. The assessment is designed to focus attention on areas that need attention in order to deliver additional and sustained improvement. Our work in this area was led by the local Comprehensive Area Assessment Lead (CAAL). The CAAL shared his draft findings with officers and he formally reported to the council on 9 December 2009. Alongside the CAA report we have issued our organisational assessment which combines our judgements on your use of resources and managing performance. Any issues arising will be discussed with you and planned into future years audit and assessment activity.

International Financial Reporting Standards

- 7 As part of my 2008/09 audit I have completed an Audit Commission survey on the Authority's progress in preparing for the implementation of IFRS. The survey indicated that the Authority is making good progress in putting into place arrangements for the implementation of International Financial Reporting Standards. Officers need to ensure they continue to monitor progress and ensure all required arrangements are in place.

Audit Fees

- 8 I set out in my audit plan in June 2008 my proposed audit fee of £104,000. I am pleased to be able to confirm that the audit has been completed in accordance with the plan. Table 1 below sets out more detail.

Table 1 **Audit fees**

	Actual £	Proposed £	Variance £
Financial statements and annual governance statement	77,400	77,400	0
Use of resources	26,600	26,600	0
Total audit fees	104,000	104,000	0
Inspection	6,000	6,000	0
Certification of claims	tbc	25,000 (Est)	tbc

Key messages

Independence

- 9** I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.
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Economic outlook

- 10** The economic downturn and banking crisis is having a significant impact on public finances and the bodies that manage them. The impact on treasury management strategies has been immediate, but there are wider and more fundamental impacts on the ability of public sector bodies to fund service delivery and capital programmes, including pressures on income streams. There are further challenges for policy priorities where patterns of demand for services are changing.
- 11** This impacts on the audit and as part of my responsibility, I have reflected on the wider environment, specific issues and risks and the Authority's response. The Authority has sound financial planning arrangements in place and needs to continue to proactively manage its finances and other resources to address emerging financial risks.
- 12** The Council has investments in Landsbanki Island pf totalling £1m. The latest guidance received in September 2009 indicates that 83 per cent of the £1 million invested may be recoverable although this is still subject to confirmation. The Council's Treasury Management arrangements and policies have been reviewed in the light of the economic downturn to further protect the Council from potential future investment losses.

Financial statements and annual governance statement

The Council's financial statements and annual governance statement are an important means by which the Council's accounts for its stewardship of public funds.

Significant issues arising from the audit

- 13** I issued an unqualified audit opinion on the financial statements on 29 September 2009. The financial statements submitted for audit were free from any material errors.
 - 14** The Annual Governance Report was presented to the Audit Committee on 24 September 2009. I reported that an adjustment had been made to Pension Note 40 to reflect the requirements of the 2008 Statement of Recommended Practice (SORP) along with a number of minor errors and typographical amendments. I reported that no adjustment had been made in respect of a payment of £16,350 which related to 2009/10 rather than 2008/09 along with no adjustment in respect of the impairment charge relating to the Council's frozen investment of £1m in Landsbanki Island pf in Iceland. Guidance received in September 2009 would have increased the impairment charge in the Council's accounts by £86,265. This amount was not material to my opinion on the Council's accounts.
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Material weaknesses in internal control

- 15** I reported to the Audit Committee that quarterly payroll verification exercises which were due to be undertaken following an internal audit review in January 2009 were not being undertaken mainly due to IT problems. The Director of Resources accepts that these checks are key in ensuring that payroll data remains robust and is currently seeking to ensure that they are implemented.
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Accounting Practice and financial reporting

- 16** I considered the qualitative aspects of your financial reporting and in addition to some relatively minor amendments to accounting policies and notes to the accounts I reported that the Council had failed to achieve full recovery of the costs of providing Building Control services over a three year continuous period. The cumulative deficit of £64,000 at 31 March 2009 has been met from reserves generated from surpluses in earlier years.

Value for money and use of resources

I considered how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and gave a scored use of resources judgement.

I also assessed whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

Use of resources judgements

- 17** In forming my scored use of resources judgements, I have used the methodology set out in the [use of resources framework](#). Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements at level 2.
- 18** I have also taken into account, where appropriate, findings from previous use of resources assessments (updating these for any changes or improvements) and any other relevant audit work.
- 19** The Council's use of resources theme scores are shown in Table 2 below. The key findings and conclusions for the three themes are summarised below.

Table 2 Use of resources theme scores

Use of resources theme	Scored judgement
Managing finances	2
Governing the business	2
Managing resources	2

-
- 20** The basis of the assessment changed in 2009 and now defines use of resources in a broader way than previously, embracing the use of natural, physical and human resources. It also places new emphasis on commissioning services for local people and achieving value for money.
- 21** The Council received an overall score of 2 for its use of resources which means the Council is performing adequately. I have made a small number of recommendations which are set out in my separate Use of Resources report.

Managing Finances

- 22** The Council integrates financial and corporate planning processes. All strategic objectives are assessed for financial implications. The allocation of resources is based upon the relative priority of services. The 'WANOP' (what are not our priorities) process is used across the Council as part of the budget setting exercise to identify savings. The Council has a good track record of setting balanced and robust budgets. The Council's medium term financial plan sets out the financial projections for pursuing and achieving strategic objectives over the next three years. There are clear links between the medium term financial plan and strategic objectives for both capital and revenue spending plans. The Council regularly consults with local residents and stakeholders to ensure that it reflects their views in setting priorities and allocating resources. The Council has a track record of operating within its budget whilst maintaining good service performance. Burnley's services are improving at a faster rate than the national average though often from a low base. This reflects the council's position as one of the most deprived District Councils in the Country. Around 67 per cent of nationally comparable indicators improved for Burnley in 2007/08 which is above the district council average.
- 23** The Council has a track record of using its Continuous Process Improvement (CPI) programmes to analyse, at service and operational level, costs and performance to identify issues and devise and implement solutions. The actions of the Council in reviewing services have led to improved value for money, better customer service, improved productivity and cash and non-cash savings (for example reduced expenditure on clearance of dirty back yards after the CPI project and savings in staff processing times in benefits). In applying CPI to deliver service improvements intended outcomes and associated benefits are articulated at the project scope stage and subsequently refined as work confirms and identifies opportunities. We think that the council could be more precise in articulating the intended outcomes at the outset which would improve project evaluation and benefits realisation once the project has been completed. The Council continues to be higher spending than some of its comparators as a result of higher levels of deprivation and greater needs in the community. The needs of the community are, in general, well understood by the Council and spending levels are commensurate with the high level of demand and need identified.
- 24** The Council has comprehensive financial reporting and monitoring arrangements in place for both revenue and capital items. Budget monitoring reports are provided monthly for budget holders and each Executive Member for the budgets in their area of responsibility. In addition action plans are developed where a material variance arises. In-year financial monitoring and forecasting information is consistent with the financial information reported externally to stakeholders at the year end. Internal financial monitoring is relevant, understandable and accruals based. There is evidence of sensitivity analysis being prepared for forecasts to outline the impact of falling interest rates, reducing capital receipts and increases in utility prices. The Council has historically produced accounts that comply with the necessary statutory timetables and accounting standards. The statement of accounts was approved by the Audit Committee on 24 June 2009 following a comprehensive report and explanation by the Head of Finance. The accounts were submitted for audit at the beginning of July 2009 were free from material error or misstatement. The Council plans, as in previous years to issue a simple jargon free summary of the accounts in autumn 2009. All reports are

Value for money and use of resources

available in a range of format to suit the requirements of audio, Braille, large print and alternative languages.

Governing the Business

- 25** The Council has a good set of procurement arrangements in place which enable it to deliver services based on the needs of the local community. The Council does involve service users in a detailed way to ensure that decisions are based on need and community views. At times commissioning and procurement arrangements involve close working with partners, eg, with East Lancashire PCT for the St Peters development. But the Council could improve its modelling and projection of anticipated outcomes and could develop improved evaluation and benefits realisation methodologies. The Council uses IT effectively to improve its own procurement activities, eg, the East Lancashire e-procurement partnership. There is evidence of Burnley enhancing its contribution to partnership objectives through commissioning and delivery of targeted programmes to help address youth nuisance and to promote community cohesion, the former leading to a significant reduction in youth nuisance crime figures in the targeted areas. Overall the Council works well in partnership with other bodies, addressing key issues identified within the community strategy and delivering outcomes from its activities. To further improve the impact of recent improvements to procurement the Council has begun to embed improved scenario development, evaluation and benefits realisation.
- 26** The Council has a consistent track record of ensuring data quality and data security as evidenced by previous years' audit work. The evidence analysed this year shows a continued improvement in policies and procedures and a resulting impact on the quality and reliability of information available to managers and councillors to support planning, aid decision making and enable effective monitoring of activities. There are strong internal control procedures which enable the Council to be confident about the robustness of its data. Data security procedures are in place and protocols agreed with partners.
- 27** The Council's constitution clearly outlines the individual roles and responsibilities of senior officers and members, The Council promotes the development culture of members through its PDP process and has recently introduced member mentoring. The Council has adopted a comprehensive range of codes of conduct for its members, co-opted members and staff. All members attend compulsory training on the Code of Conduct which is provided annually. The Council has in place a diverse range of partnerships with the public, private and third sectors. All significant partnership arrangements are comprehensively documented including governance arrangements. The Local Strategic Partnership - the Burnley Action Partnership (BAP) comprises a range of public and private sector partners. The Council acknowledged in 2007 that further work was needed to link governance structures to outcomes, ensuring successful outcomes for communities. The partnership was re-launched in 2008 with clear links and accountabilities on cross cutting issues and a new Community Strategy. Notable outcomes have been delivered working closely with the local strategic partnership, these include the Borough's new education campus, 3 new schools and sixth form, and advanced manufacturing park and co-ordinated projects to tackle worklessness. The Council has arrangements in place through its Partnership to

ensure continued delivery of positive outcomes across all aspects of the key lines of enquiry.

- 28** A clear process operates throughout the Council to identify, analyze and manage risks. At a strategic level these risks are linked to strategic objectives which recognise key service hazards that impact on the outcomes targeted by the objectives. Ultimate responsibility for risk management sits appropriately with the Executive and Management Team, supported by the Audit Committee and Risk Management Group. The Council has recognised that risk management is a key competency for all staff. Service level risk registers are living documents and project risk registers are formally reviewed on a monthly basis. The strategic risk register is reviewed half-yearly. Up to date fraud and corruption and whistle-blowing policies are in place. Staff and member codes of conduct are in place and communicated through induction training and an awareness programme. The Council has sound systems of internal control supported by an effective internal audit section which complies with CIPFA professional standards. Its financial systems have effective controls which are complied with by staff, monitored by management and reviewed by internal audit. There is an Audit Committee which delivers against all its core functions but the overall performance of the Committee could be improved by more active participation of some members and by more effective scrutiny of matters coming before the Committee.

Managing Resources

- 29** The council has a variety of policies and procedures in place to promote diversity, equality and good people management. The council has a productive and skilled workforce and is achieving efficiency gains in some service areas. Investment has been made in management and supervisory development which has not yet had time to impact on service delivery. There is an effective well-being initiative which alongside improved procedures for managing absence has led to reductions in sickness absence which now runs at about 9 days per person per year. Workforce planning is a key part of service planning. This gives the council a picture of its staffing requirements in the medium term based on the current workforce profile. However this could be improved by more detailed analysis to aid future planning. The council has sound arrangements in place for consultation with staff. The 2009 survey shows satisfaction increasing and morale improving.

Looking ahead

- 30** For 2009/10, the key lines of enquiry specified for the use of resources assessment are set out in the Audit Commission's work programme and scales of fees 2009/10. An additional KLOE, 3.1 - natural resources will apply to district councils for 2009/10 and we will work with officers to review the Council's arrangements for managing natural resources and monitor progress throughout the year

VFM Conclusion

- 31** I assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. From 2008/09, the Audit Commission will specify each year, which of the use of resources KLOE are the relevant criteria for the VFM conclusion at each type of audited body.
- 32** I issued an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

Closing remarks

- 33** I have discussed and agreed this letter with the Chief Executive and the Director of Resources and made appropriate amendments to the text. The conclusions reached and scores awarded for the use of resources and value for money assessments are mine alone. I will present this letter at the Audit Committee in early 2010 and will provide copies to all committee members.
- 34** Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

Table 3

Report	Date issued
Annual Governance Report	September 2009
Use of Resources report	December 2009

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- 35** The Council has taken a positive and constructive approach to our audit. I wish to thank the Council staff for their support and co-operation during the audit.

Clive Portman
 District Auditor
 December 2009

The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

Copies of this report

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