

The Audit Findings for Rossendale Borough Council

Year ended 31 March 2017

** July 2020

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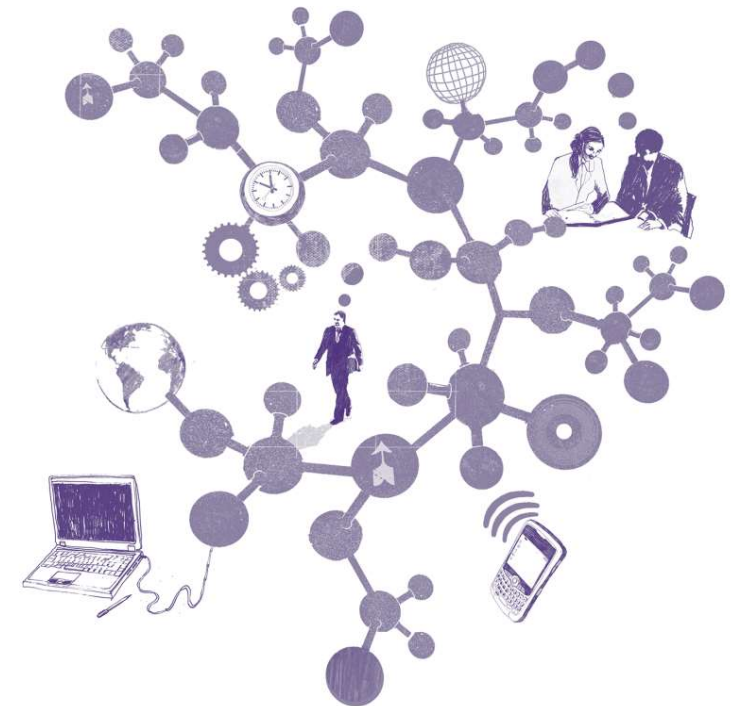
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27th July 2020

Dear Cllr Marriott

Audit Findings for Rossendale Borough Council for the year ending 31 March 2017

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of Rossendale Borough Council, the Audit and Accounts Committee), to oversee the financial reporting process, as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland) ('ISA (UK&I)'), 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.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

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

Yours sincerely

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Contents

Section	Page
1. Executive summary	4
2. Audit findings	8
3. Value for Money	21
4. Other statutory powers and duties	25
5. Fees, non-audit services and independence	27
6. Communication of audit matters	29

Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

Purpose of this report

This report highlights the key issues affecting the results of Rossendale Borough Council ('the Council') and the preparation of the Group and Council's financial statements for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under 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 its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

We are also required to consider other information published together with the audited financial statements including the Annual Governance Statement (AGS) and Narrative Report, whether it is consistent with the financial statements, apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit or otherwise misleading.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion'). Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);
- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act).

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

Introduction

In the conduct of our audit we have not had to alter our audit approach, which we communicated to you in our Audit Plan on 5 March 2019.

Our audit is largely complete. At the time of drafting this report we are still finalising our procedures in the following areas:

- updating our post balance sheet events review, to the date of signing the opinion including the Council's going concern disclosures in the light of the Covid 19 pandemic and
- review of the final approved set of financial statements
- Receipt of management representation letter.

Key audit and financial reporting issues

Financial statements opinion

We have identified a number of adjustments from our audit of the draft financial statements for the year ended 31 March 2017. We have also recommended a number of adjustments to improve the presentation of the draft financial statements.

The key messages arising from our audit of the Group and Council's financial statements are:

- The significant adjustments made to the 2014-15 financial statements to reflect the changes associated with the Empty Homes Programme have required amendments to the 2016-17 financial statements.
- A number of other amendments have been made to help improve the quality of disclosures within the financial statements.
- The Council's accounts have been updated in respect of the audited Rossendale Transport Limited's accounts for the year to 31 March 2017.

Further details are set out in section two of this report.

Subject to the satisfactory clearance of the outstanding matters we anticipate providing a unqualified audit opinion in respect of the 2016/17 financial statements.

Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes if the AGS and Narrative Report is misleading or inconsistent with the information of which we are aware from our audit.

We currently have no issues to report.

Empty Homes Programme

In November 2015 the Council's Internal audit provider published its report from its review of the Empty Homes Programme. The report highlighted widespread and serious failings in the Council's procedures including a failure to consider and assess risk. The Council accepted the findings of the report and has since taken action to rectify the identified failings. Further details of the progress that has been made is set out later in this report.

As noted above we understand there is also an ongoing police investigation. As a result of the ongoing police investigation we are not able to issue the certificate of completion of the audit.

Controls

Roles and responsibilities

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

Findings

As already highlighted the Internal audit investigation into the Empty Homes programme, reported in November 2015, identified significant deficiencies in the operation of the Council's internal control procedures. Action has been taken by the Council to address the identified deficiencies.

Further details are provided within section two of this report.

Value for Money

Our review of the Council's arrangements to secure economy, efficiency and effectiveness is largely complete.. The Internal audit investigation into the Empty Homes Programme highlighted widespread deficiencies in the Council's oversight and management of a key corporate project. It is clear from the reviews completed by Internal Audit during the year of audit that progress has been made in improving the Council's overall arrangements although some specific deficiencies remain. Therefore subject to any representations and our final consistency checks, we intend to issue a qualified 'except for' VfM conclusion confirming the Council did have appropriate arrangements in 2016/17 except for the identified deficiencies.

Other statutory powers and duties

As noted on page 6 we understand there is also an ongoing police investigation. As a result of the ongoing police investigation we are not able to issue the certificate of completion of the audit.

Grant certification

In addition to our responsibilities under the Code, we are required to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. We completed the work to the appropriate timetable in November 2017.

The way forward

Matters arising from the financial statements audit and our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Council.

Acknowledgement

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

Grant Thornton UK LLP
July 2020

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £658k (being 1.75% of gross revenue expenditure).

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £33k. This remains the same as reported in our audit plan.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate.

Balance/transaction/disclosure	Explanation
Disclosures of officers' remuneration, salary bandings and exit packages in the notes to the financial statements	Due to public interest in these disclosures and the statutory requirement for them to be made.
Related party transactions	Public interest in such notes

Group materiality has been determined to be £982k (being 2% of group gross revenue expenditure). Clearly trivial amounts for the group has been determined to be £49k.

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

Audit findings against significant risks

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Rossendale Borough Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Rossendale Borough Council, mean that all forms of fraud are seen as unacceptable <p>Therefore do not consider this to be a significant risk for Rossendale Borough Council.</p>	<p>No issues identified.</p>
<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Reviewed accounting estimates, judgments and decisions made by management • Reviewed journal entry process and completed a walkthrough • Reviewed accounting estimates, judgments and decisions made by management • Selection of unusual journal entries for testing back to supporting documentation • Reviewed unusual significant transactions 	<p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p>

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK&I) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<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 have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Reviewed management's processes and assumptions for the calculation of the estimate. • Reviewed the competence, expertise and objectivity of any management experts used. • Reviewed the instructions issued to valuation experts and the scope of their work • Reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding. • Evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. • Tested a judgemental sample of revaluations made during the year to ensure they are input correctly into the Council's asset register. 	<p>Our work on PPE highlighted the following issues:</p> <ul style="list-style-type: none"> • The sources of finance for capital expenditure, in note 17b Capital Financing Requirement, required amending. • Investment property has not always been appropriately revalued, as required by the Code. • No overarching report was provided by the Valuer, only individual valuations. The Valuer should set out a detailed report setting out the overarching assumptions behind the annual valuation. • We would expect some further consideration of how you have determined that those assets not formally revalued in the year are not materially different to the carrying value. The valuer completes a review of 20% of the assets. We have reviewed the assumptions used and consider these as reasonable. <p>Our audit work has not identified any further matters to report.</p>

Audit findings against significant risks continued

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p>Valuation of pension fund net liability</p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We also assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. • Reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We gained an understanding of the basis on which the valuation is carried out. • We have also placed reliance on the central review of actuaries used by the Local Government Pension Scheme performed by PwC as an auditors expert. • Undertook procedures to confirm the reasonableness of the actuarial assumptions made. • Reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. 	<p>Except for minor disclosure issues in note 34, we have no further matters to report.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Employee remuneration	Employee remuneration accruals are understated	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Documented the system and identified controls and walkthrough test of payroll system • Performed substantive analytical review • Substantive testing of significant year end payroll accruals • Undertaken a trend analysis of pay by month to confirm there are no unusual fluctuations throughout the year • Tested the reconciliation between the payroll system and the amounts recorded in the financial statements. 	We identified one error with the Senior Officer Remuneration note, due to one of the remuneration bands being incorrectly stated. The remuneration should be shown in bands of £5,000, however one of the bands was recorded as £60,000 to £69,999.
Operating expenses	Year end creditors and accruals are understated or not recorded in the correct period.	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Documented the processes and controls • Evaluation and walkthrough of controls • Tested the year-end reconciliation of the accounts payable system to the general ledger • Reviewed post year end payments to identify any unrecorded liabilities • Understood management's accrual process and tested significant accruals; • Tested a sample of transactions for the year and year end payables to supporting evidence. • Reviewed post year end payments to identify whether the transactions have been recorded in the correct financial year. 	Our audit work has not identified any significant issues in relation to the risk identified.

Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Changes to the presentation of local authority financial statements</p>	<p>CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 CIPFA Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Documented and evaluated the process for recording the required financial reporting changes to the 2016/2017 financial statements • Reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Authority's internal reporting structure. • Reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS). • Tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES. • Tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger. • Tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements. • Reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice 	<p>The financial statements have been amended to ensure the note is disclosed in accordance to guidance notes and consistent with the financial statements.</p>



Group audit scope and risk assessment

ISA (UK&I) 600 requires that as Group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.



Component	Significant?	Level of response required under ISA 600	Risks identified	Work completed	Assurance gained & issues raised
Rossendale Transport Ltd	Yes	Comprehensive		Reviewed the consolidated group accounts produced by the Council's Finance team. We also considered the work of the auditors of the component companies to ensure we can place reliance on them.	Our audit work has not identified any issues.

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.



Accounting area	Summary of policy	Comments	Assessment
<p>Revenue recognition</p>	<ul style="list-style-type: none"> Government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that the Council will comply with the conditions attached to the payments, and the grants or contributions will be received. Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council. Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council. 	<ul style="list-style-type: none"> Revenue recognition policies are in line with the requirements of the Code of Practice on Local Authority Accounting 2016/17 and accounting standards The main elements of the Council's revenue is predictable and there is minimal judgement required from the Council We have undertaken substantive testing of grants and other revenues. No specific mention has been made of revenue recognition policies as they pertain to council tax and business rates. 	
<p>Estimates and judgements</p>	<ul style="list-style-type: none"> Key estimates and judgements include: <ul style="list-style-type: none"> useful life of capital equipment pension fund valuations and settlements asset revaluations, depreciation and impairments provisions and accruals, including bad debt provisions, and fair value of financial instruments 	<ul style="list-style-type: none"> The Council's policies on estimates and judgements are reasonable and appropriately disclosed. The Council has appropriately relied on the work of experts for asset revaluations, pension fund valuations and financial instrument fair values. The Council has continued with its policy of revaluing land and buildings assets on a rolling basis over a five year period. We have reviewed the revaluations completed for 2015/16 and have reviewed management's consideration of the reasonableness of the valuations for those assets in a class that have not been re-valued this year. However the estimation approach to the annual review of investment properties and to those assets not valued in the five yearly cycle needs to be improved. 	

Assessment

-  Marginal accounting policy which could potentially attract attention from regulators
-  Accounting policy appropriate and disclosures sufficient

-  Accounting policy appropriate but scope for improved disclosure

Accounting policies, estimates & judgements continued

Accounting area	Summary of policy	Comments	Assessment
<p>Going concern</p> <p>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</p>	<p>Management has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.</p>	<p>We have reviewed the s151 Officer’s assessment and are satisfied with management’s assessment that the going concern basis is appropriate for the 2016/17 financial statements. Management have provided us a detailed cash flow to March 2021 followed by the medium term financial strategy which is to March 2024.</p> <p>We have also reviewed the Council post balance sheet event disclosures in the light of the Covid 19 pandemic. As well as there responses to the questions to consider coronavirus in respect of the entity’s ability to continue as a going concern .</p> <p>Our review has not highlighted any issues which we wish to bring to your attention.</p>	
<p>Other accounting policies</p>	<p>We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.</p>	<p>Our review of accounting policies has not highlighted any issues which we wish to bring to your attention</p>	

Assessment

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit and Accounts Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit.
2.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> The Empty Homes programme investigation highlighted that the Council may have claimed grant in advance of need. We understand that the HCA are not currently pursuing this matter further. We are not aware of any other significant incidences of non-compliance with relevant laws and regulations.
3.	Written representations	<ul style="list-style-type: none"> A letter of representation has been requested from the Council. We are seeking specific assurances that we have been provided with all relevant information in relation to the ongoing investigations into the Empty Homes programme and going concern in the light of Covid 19.
4.	Disclosures	<ul style="list-style-type: none"> As highlighted above we have agreed a number of amendments to the disclosures included in the financial statements.
5.	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related party transactions which have not been disclosed.
6.	Confirmation requests from third parties	<ul style="list-style-type: none"> We obtained direct confirmations from relevant third parties as required.
7.	Matters on which we report by exception	<ul style="list-style-type: none"> We are required to report on a number of matters by exception in a number of areas: We have currently not identified any issues we would be required to report by exception in the following areas If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Group/Council acquired in the course of performing our audit, or otherwise misleading.
8.	Specified procedures for Whole of Government Accounts	<ul style="list-style-type: none"> Note that work is not required as the Council does not exceed the threshold.

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for Employee Remuneration and Operating Expenses as set out above.

As highlighted earlier this report the Internal audit investigation into the Empty Homes programme, reported in November 2015, identified significant deficiencies in the operation of the Council's internal control procedures. Action has been taken by the Council to address the identified deficiencies.

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 merit being reported to you in accordance with auditing standards.

"The purpose of an audit is for the auditor to express an opinion on the financial statements.

Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK&I) 265)

Adjusted misstatements

A number of adjustments to the draft accounts have been identified during the audit process. We have summarised below the adjustments arising from the audit which have been processed by management.

- The cumulative impact of changes made to the 2014/15 and 2015/16 Accounts have now been reflected in the comparator year figures in the 2016/17 Accounts.
- The Comprehensive Income and Expenditure Statement and supporting notes were amended to include an asset impairment of £1,113k relating to the Haslingden Sports Centre building. As well as the Comprehensive Income and Expenditure Statement this has also affected the Movement in Reserves Statement and Cash flow.
- The reserves balance was incorrectly brought forward and restated.
- Various disclosures have been made to Note 1 and 2 regarding the Code changes for Expenditure and Income Analysis, including a change in the heading and format of the note.
- Note 8 on page 27 - Members Allowances has been amended to correct some typo errors.
- Note 9 - Senior Officers' Remuneration was amended to ensure bandings were correctly shown
- Long Term Investments Note 19 on page 38 and the Group Accounts were updated to reflect the audited 2016/17 Rossendale Transport Limited accounts
- Note 14 was amended so the categories agreed to the Fixed Asset Register.
- Note 14d was amended to show the correct revaluation date for Markets and Sheltered Accommodation.
- Note 17b was amended to agree with the capital receipts note and capital grants and contributions.
- Note 21c was amended to correct the signage on borrowings.
- Note 24 included credit balances of £825k these were amended and included in the creditors balance.
- Note 28 was amended to include the credit entries in debtors and reclassification between headings.
- In the Provisions Note 30 on page 47 Other Provisions have been moved to Short Term Provisions to match the Balance Sheet
- The Capital Grants Unapplied Account Note 32c updated for the Transforming Lives and Hoarding Grants to show the correct split between grant received and grant applied. The balance at the year-end has not changed
- The Pension Fund note was updated to correct some minor disclosure issues
- The Accounting Policies were updated to remove all references to the Services Reporting code of Practice for Local Authorities 2016/17
- Fair Value Measurement on page 69 has been inserted to explain the accounting policy on how the Council measures its non-financial assets
- The Post Balance Sheet Event note was updated to include details of material event that have occurred after the balance sheet up to the present date
- The collection fund notes 2 and 6 were updated to amend for disclosure issues.
- Collection Fund Note 3 has been amended to correct Council Tax base figures for 2016/17 and 2015/16
- The Group Balance Sheet has been amended so that net assets equal net reserves
- Notes 9e and 9j to the Group Balance Sheet have been amended to reflect the exclusion of figures relating to RTL
- Adjustments have been made to Note 21a to correct the classification of financial instruments
- Corrections have been made to Pensions Notes 34i and 34j and Group Note 9f to reflect the Actuary's schedules
- Collection Fund Note 7 has been changed to correct figures for rateable value and net rates collected
- Note 10: amendments made to correct salary bandings
- Amendments made to Group Note 1 so the Group deficit agrees to the Group Balance sheet and MIRS
- Various amendments have been made to correct minor typographical errors

Section 3: Value for Money

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non-audit services and independence

06. Communication of audit matters

Background

We are required by section 21 of the Local Audit and Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') to satisfy ourselves that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2016. AGN 03 identifies one single 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.

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

Risk assessment

We carried out an initial risk assessment and reported it to you in our plan dated March 2017 and identified one significant risk in respect of specific areas of proper arrangements using the guidance contained in AGN03.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risk we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Significant qualitative aspects

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risk that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- The Council's response to the Internal Audit report on the Empty Homes scheme
- Evidence that no further governance issues occurred during the year.

We have set out more detail on the risk we identified, the results of the work we performed and the conclusions we drew from this work on the following page.

Overall conclusion

Our review of the Council's arrangements to secure economy, efficiency and effectiveness is complete. The Internal audit investigation into the Empty Homes Programme highlighted widespread deficiencies in the Council's oversight and management of a key corporate project. It is clear from the reviews completed by Internal Audit during the year of audit that progress has been made in improving the Council's overall arrangements although some specific deficiencies remain.

Therefore subject to any representations and our final consistency checks, we intend to issue a qualified 'except for' VfM conclusion confirming the Council did have appropriate arrangements in 2016/17 except for the identified deficiencies.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Work to address	Findings and conclusions
<p>Governance, risk management and decision making</p> <p>The Internal Audit report on the issues arising from the HCA programme 'Bringing Empty Homes into Use' identified a number of significant deficiencies in the Council's decision making, risk management and governance of this major project.</p>	<p>We considered how the Council has responded to the Internal Audit Report, including an assessment of the progress made by the Council to implement the detailed management action plan.</p>	<p>We have reviewed the Council's overall response to the Internal Audit report, though the comments in this report reflect the actions and evidence that relate to 2016-17.</p> <p>In September 2016 the Council issued its public improvement plan, responding to the issues raised by Internal Audit. The Council used the document to apologise for the failings in the governance, financial oversight and control procedures in respect of Member involvement, procurement, monitoring and control of the Empty Homes project. The plan highlighted a number of key achievements that had already been made in responding to the issues raised.</p> <p>A further update was presented to Members in March 2017 and many of the actions identified by the Council as being required had been successfully implemented.</p> <p>To help assess the progress made, the Internal Audit plan included four specific reviews to consider the corporate processes that had failed under the Empty Home Project. The four areas reviewed were:</p> <ul style="list-style-type: none"> • Procurement • Risk management • Performance Management: and • Decision Making <p>From the four subsequent reports, both the performance management and decision making reviews concluded there was a sound system of internal control. For risk management, limited assurance was given however we noted that the main concerns related to risk management in relation to specific projects. Corporate risk management arrangements actually had substantial assurance conclusion and there were no recommendations relating to a high residual risk area.</p> <p>The fourth review related to procurement and again a limited assurance could be given over the controls. From 13 contracts reviewed by internal audit, only four fully complied with procurement procedures whilst five did not comply at all. Whilst we understand that some of the findings were queried at the time of the review, all actions were agreed by Management at the Council. Non-compliance included:</p> <ul style="list-style-type: none"> • tenders having not been issued or advertised • quotations not being sought • financial appraisals having not been completed; and • one contract having not been advertised in the OJEU, in contravention of EU regulations <p>With the exception of the above no further governance failing were identified and Internal Audit were able to give substantial assurance for general internal controls within the Council in 2016/17.</p>

Section 4: Other statutory powers and duties

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

Other statutory powers and duties

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

	Issue	Commentary
1.	Public interest report	<ul style="list-style-type: none">• We have not identified any new matters relating to 2016-17 that would require a public interest report to be issued.
2.	Written recommendations	<ul style="list-style-type: none">• We have not identified any new matters relating to 2016-17 that would result in formal recommendations to be made requiring a public response by the Council.
3.	Application to the court for a declaration that an item of account is contrary to law	<ul style="list-style-type: none">• We confirm that we have not used this duty.
4.	Issue of an advisory notice	<ul style="list-style-type: none">• We confirm that we have not used this duty.
5.	Application for judicial review	<ul style="list-style-type: none">• We confirm that we have not used this duty.

Section 5: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

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

Fees

	Proposed fee £	Final fee £
Council audit	45,796	TBC
Grant certification	8,003	8,003
Total audit fees (excluding VAT)	53,799	TBC

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

Grant certification

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Independence and ethics

- Ethical Standards and ISA (UK&I) 260 require us to give you timely disclosure of matters relating to our independence.
- 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 Auditing Practices Board's Ethical Standards and confirm that we are independent and are able to express an objective opinion on the financial statements.
- We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.
- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group. No other service were provided.

Section 6: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

Communication to those charged with governance

ISA (UK&I) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report, or emphasis of matter		✓
Unadjusted misstatements and material disclosure omissions		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓
Matters in relation to the group audit including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud.	✓	✓



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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ROSSENDALE BOROUGH COUNCIL

We have audited the financial statements of Rossendale Borough Council (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Comprehensive Income and Expenditure Statement, the Group Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Group Movement in Reserves Statement, the Balance Sheet, the Group Balance Sheet, the Cash Flow Statement, the Group Cash Flow Statement, the Collection Fund Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Head of Finance and auditor

As explained more fully in the Statement of Responsibilities, the Head of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Finance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements present a true and fair view of the financial position of the Authority and Group as at 31 March 2017 and of the Authority's and Group's expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

We have nothing to report in respect of the above matters.

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Respective responsibilities of the Authority and auditor

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 20(1)(c) of the Act to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and

Auditor General in November 2016, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criteria as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Basis for qualified conclusion

Our review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources identified the following matter.

In November 2015 the Authority's internal audit provider published a report based on its review of the Authority's Empty Homes Programme (the "Programme"). The report concluded that:

- the Authority's internal financial and legal procedures were overlooked or overridden
- the work of the external contractor was taken wholly on trust and warning signs were ignored
- almost every management control that the Authority should have operated was overridden and there was only minimal oversight and supervision by members of the senior management team, and
- the Authority failed to identify or control the risks associated with incurring costs on its partners' behalf and outsourcing its responsibilities to an external contractor.

On receipt of the internal audit report the Authority took immediate action to identify the improvements that were needed and the Authority's formal response to the report was presented to the Authority's Accounts and Audit Committee in March 2016 through the 'Rossendale Council Public Improvement Plan'. The Improvement Plan included four key areas where improvements were required.

An Improvement Plan update in June 2016 showed that the majority of the required improvements had been made. Internal audit formally reported on this later in the year and concluded that the arrangements had been improved in three of the four areas, but that further action was needed to ensure compliance with the Authority's internal procurement procedures.

This matter identifies weaknesses in the Authority's arrangements for ensuring compliance with their internal procurement procedures.

This is evidence of weaknesses in proper arrangements for procuring supplies and services effectively to support the delivery of strategic priorities.

Qualified conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, except for the effects of the matter described in the basis for qualified conclusion paragraph, we are satisfied that in all significant respects the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for the Authority for the year ended 31 March 2017 in accordance with the requirements of the Act and the Code of Audit Practice until we have completed our consideration of matters brought to our attention. We are satisfied that these matters do not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

[Signature]

Paul Dossett, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

[Office address]

[Date]