



Audit Findings

Year ending 31 March 2018

Rossendale Borough Council
27 July 2022



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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 for the purpose of expressing our opinion on the financial statements. 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 control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Headlines

This table summarises the key issues arising from the statutory audit of Rossendale Borough Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2018 for those charged with governance.

Financial Statements	<p>Under the International Standards of Auditing (UK) (ISAs), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none"> the group and Council's financial statements give a true and fair view of the group and Council's financial position and of the group and Council's expenditure and income for the year, and have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. 	<p>Our audit work is largely complete. At the time of drafting this report we are still finalising our procedures in the following areas:</p> <ul style="list-style-type: none"> completion of final review process; review of final approved set of financial statements and receipt of management representation letter;
	<p>We are also required to report whether other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Our current findings are summarised within the report. We have identified a number of adjustments to the financial statements, the main item being the need for Group Accounts. Significant improvement is needed in the Council's asset revaluation processes. We also identified an error with the treatment on accounting for a grant which was not ringfenced and this led to a prior period adjustment.</p> <p>We have been working with the Council to finalise outstanding queries, and have reviewed the treatment on the sale of the Transport queries, these have been finalised and the amendments have been agreed. We have also been working with the Councils property team and external valuers on finalising our queries with revaluations. These have been finalised and one asset has been amended. We will issue an unqualified audit opinion.</p>
Value for Money arrangements	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none"> the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion') 	<p>Our review of the Council's arrangements to secure economy, efficiency and effectiveness is largely complete. We intend to issue an unqualified VFM conclusion confirming the Council did have appropriate arrangements in 2017/18.</p>
	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"> report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and certify the closure of the audit 	<p>We have not exercised any of our additional statutory powers or duties.</p> <p>We do not expect to be able to certify the conclusion of the audit due to the ongoing investigation in to the Empty Homes Programme.</p>

Acknowledgements

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.

Summary

Overview of the scope of our audit

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code').

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

Audit approach

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

- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of total group assets and revenues to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that a comprehensive audit response was required.

- A review of the transactions to ensure the sale of the subsidiary is correctly accounted for.

Conclusion

We have completed our work and have agreed amendments to the accounts. Further information can be found in Appendix B.

Materiality

The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. 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.

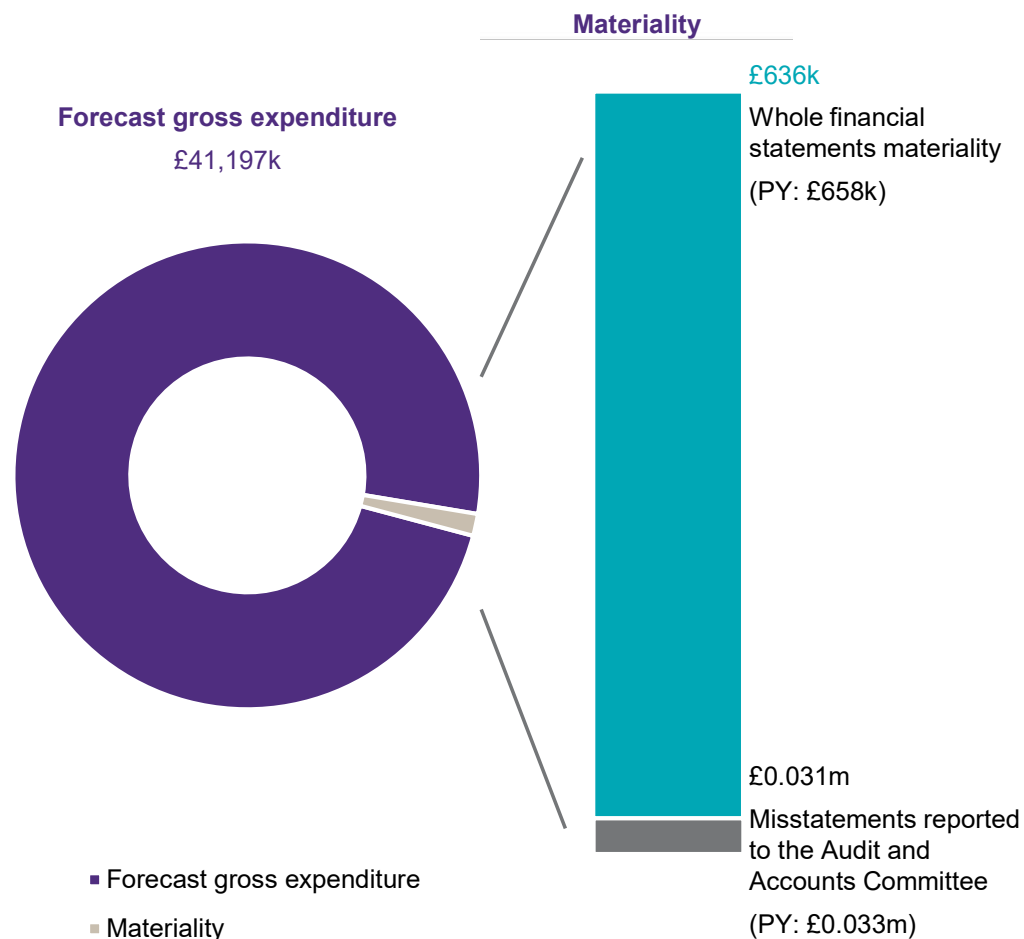
Materiality

We calculated financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. In the prior year we used the same benchmark. We determined materiality to be £636k (PY £658k), which equates to 1.8% of your forecast gross expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision.

Matters we report to the Audit and Accounts Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit and Accounts Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £31k (PY £33k).

We will also report those corrected material misstatements, identified during the course of the audit, to the Audit and Accounts Committee to assist it in fulfilling its governance responsibilities.



Significant audit risks

Risks identified in our Audit Plan

Commentary

1

Improper revenue recognition

Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

Auditor commentary

Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:

- there is little incentive to manipulate revenue recognition
- 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

Therefore we do not consider this to be a significant risk for Rossendale Borough Council.

2

Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance.

We identified management override of controls as a risk requiring special audit consideration.

Auditor commentary

We planned to:

- Gain an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness
- obtain a full listing of journal entries, identified and tested unusual journal entries for appropriateness
- evaluate the rationale for any changes in accounting policies or significant unusual transactions.

Our work identified one journal where the journal was not correct. The journal should have been split between short term and long term debtors and not all allocated to short term. However we do not believe this is a management override of control but a coding issue the Council will need to review.

Our audit work found no further issues with the exception of the above.

Significant audit risks

Risks identified in our Audit Plan

Commentary

3 Valuation of property, plant and equipment (PPE)

The Council revalues its land and buildings on a rolling basis over a 5 year period to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.

We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.

Auditor commentary

We are:

- Reviewing management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work
- Considering the competence, expertise and objectivity of any management experts used.
- Discussing with the valuer the basis on which the valuation is carried out and challenge of the key assumptions.
- Reviewing and challenging the information used by the valuer to ensure it is robust and consistent with our understanding.
- Testing revaluations made during the year to ensure they are input correctly into the Council's asset register
- Evaluating 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.

Our testing was delayed as we obtained further evidence from Capita to understand the basis on valuation of a sample of assets and obtain reasonable assurance the remaining assets do not require revaluation.

Our testing has identified that assets have been revalued as at the 01/04/2017 with no work being completed to ensure these valuations are correct as at the 31/03/2018.

No evidence has been maintained to demonstrate the consideration of the material accuracy of PPE values for those assets not formally revalued as part of the 5 year cycle in 2017/18. We have worked with the Council and its valuer to confirm any potential changes on these assets is not material. We identified one asset which was revalued in 2018/19 and the value has materially changed. The accounts have been amended to reflect this.

The Council needs to develop a formal process for documenting its consideration of why the carrying value of its assets that are not formally revalued in the year are not materially misstated. This represents a serious control weakness.

4 Valuation of pension fund net liability

The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.

We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.

Auditor commentary

We have:

- Identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assessed whether these controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement
- Evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We have gained an understanding of the basis on which the valuation is carried out
- Undertaken procedures to confirm the reasonableness of the actuarial assumptions made.
- Checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary

No issues have been identified.

Reasonably possible audit risks

Risks identified in our Audit Plan

Commentary

7

Employee remuneration

Payroll expenditure represents a significant percentage of the Council's operating expenses.

As the payroll expenditure comes from a number of individual transactions there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention

Auditor commentary

We have undertaken the following work in relation to this risk:

- evaluated the Council's accounting policy for recognition of payroll expenditure for appropriateness;
- gained an understanding of the Council's system for accounting for payroll expenditure and evaluated the design of the associated controls;
- completed analytical procedures to prove the completeness of the payroll expenditure.

We have no issues to report to the Committee.

8

Operating expenses

Non-pay expenses on other goods and services also represents a significant percentage of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs.

We identified completeness of non- pay expenses as a risk requiring particular audit attention:

Auditor commentary

We have undertaking the following work in relation to this risk:

- evaluating the Council's accounting policy for recognition of non-pay expenditure for appropriateness;
- gaining an understanding of the Council's system for accounting for non-pay expenditure and evaluated the design of the associated controls;
- completing testing of individual transaction and balances.

We have no issues to report to the Committee.

Significant matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

Significant matter	Commentary	
<p>① Significant events or transactions that occurred during the year</p>	<ul style="list-style-type: none"> The main significant event we are considering is the sale of the Council's subsidiary company, Rossendale Transport Limited. The issue has been considered both for the opinion on the financial statements and the VfM Conclusion to ensure the governance procedures were properly followed. 	<p>The Council have taken advice from their treasury management provider and identified the entries required. We have reviewed these entries and discussed the approach with our technical team. After a number of detailed discussions and understanding of the transactions made, the Council have accounted for these transactions correctly and made the amendments required.</p>
<p>② Business conditions affecting the council, and business plans and strategies that may affect the risks of material misstatement.</p>	<ul style="list-style-type: none"> The Council's financial position has been discussed and appropriate evidence provided to support management's assessment that is appropriate to prepare the accounts on the basis that the Council is a going concern. 	<p>No issues to report to the Committee.</p>

Significant findings arising from the group audit



Our work

Initially the Council had not completed group accounts, given the sale of its subsidiary in January 2018. However due to there being material income and expenditure transactions in the financial statements of Rossendale Transport Limited we requested that group accounts be included within the financial statements.

The Council engaged the services of their treasury management consultants on the accounting entries required. We reviewed these accounting entries and provided our comments. After considerable discussions we have agreed amendments to the accounts in respect of the disposal. The Council have made these amendments in the amended accounts. See Appendix B for further details.

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
Revenue recognition	<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 2017/18 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 council tax and business rates. 	
Estimates and judgements	<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 2017/18 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. These amounts represent material figures in the accounts and slight change in percentages can have a significant impact on the accounts. Therefore this has been raised as a serious control weakness and an action point added, see Appendix A. 	



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 2017/18

Accounting policies, estimates & judgements

Accounting area	Summary of policy	Comments	Assessment
Going concern	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.	We have reviewed the s151 Officer's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2017/18 financial statements.	
Other accounting policies	We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.	Our review of accounting policies has not highlighted any issues which we wish to bring to your attention.	

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.
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. <p>Please note that work is progressing on these items.</p>
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.

The matters that we identified during the course of our audit are set out in the table below. These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

	Assessment	Issue and risk	Recommendations
1.		<p>Cash and Bank</p> <ul style="list-style-type: none"> Our review and testing of the reconciliation for the General Bank Account identified a reconciling item. 	<ul style="list-style-type: none"> The Council should review the reconciling items within the bank account reconciliation, seeking to resolve them appropriately.
2.		<p>Property, plant and equipment revaluations</p> <ul style="list-style-type: none"> The Council's revaluations are completed as at the 1/4/2017. The Council does not complete a formal review of assets which have not been revalued in the year. Surplus assets are stated at fair value therefore should be revalued on an annual basis. 	<ul style="list-style-type: none"> The Council should complete revaluations as at the 31 March of the relevant year of accounts. The Council should develop a formal process for documenting its consideration on the carrying value of assets not formally revalued as part of the 5 year cycle to confirm they are not materially misstated. The Council should revalue surplus assets on an annual basis.
3.		<p>Accounts Evidence</p> <ul style="list-style-type: none"> In a number of areas throughout the audit we identified issues where the audit evidence was not retained by the Council. 	<ul style="list-style-type: none"> The Council should develop a process for retaining all evidence.
4.		<p>Accounts Preparation</p> <ul style="list-style-type: none"> The accounts for 2017/18 did not reconcile. 	<ul style="list-style-type: none"> Procedures should be included to ensure accounts are fully reconciled before being subject to audit.

Assessment

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

Value for Money

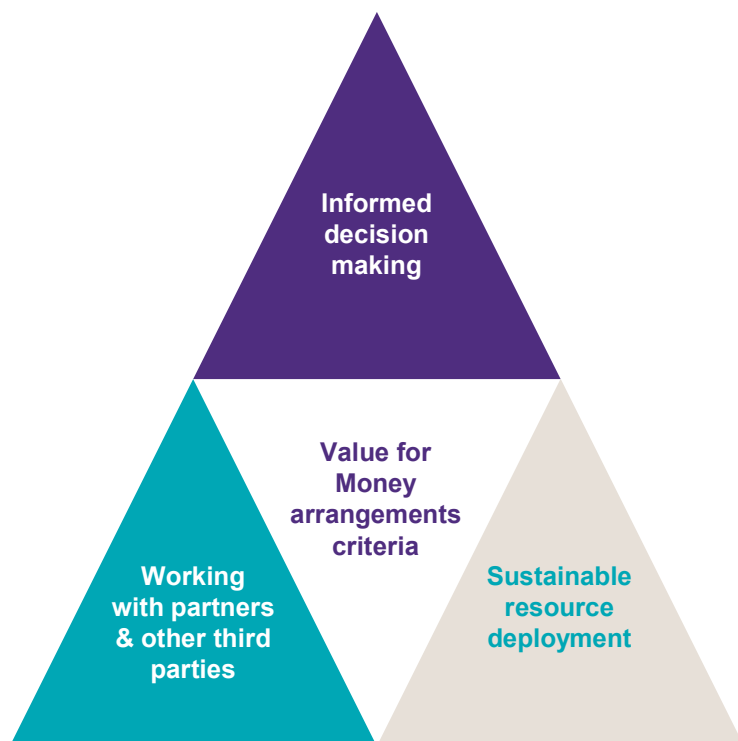
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance 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.”

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment and identified two significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan.

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 risks 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.

Value for Money

Our work

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 risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- The Council's improvement journey in responding to the issues raised in relation to the Empty Homes scheme
- The robustness of the Council's financial plans.

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work in this section.

Overall conclusion

Based on the work we performed to address the significant risks, we expect to conclude that:

- the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources.

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	Findings	Conclusion
<p>1 Governance, risk management and decision making</p> <p>The Council has had to respond to concerns raised in 2015 relating to governance, risk management and decision making. The Council has been working to respond to these issues however there remains risks that the arrangements are not sufficiently robust to meet challenges facing many public sector bodies.</p>	<p>We considered how the Council has developed its key governance arrangements, including the response to the HCA scheme issues and how the sale of Rossendale Transport Limited was managed. Documentation has been provided by the Council to demonstrate that Members were briefed on the sale and that external consultants were used to give assurance on the transaction. No significant governance issues were identified in 2017-18 and this is supported by Internal Audit giving substantial assurance regarding the adequacy of design and effectiveness in operation of the organisation's frameworks of governance, risk management and control.</p>	No issue have been identified.
<p>2 Financial Sustainability</p> <p>There remains financial challenges over the next few years which the Council needs to meet. There is a risk that financial planning and management will not be adequate to meet those challenges.</p>	<p>We have considered the Council's arrangements in place to develop financial plans and how it monitors its financial position.</p> <p>The medium term financial strategy presented to the Council in February 2018 highlighted that, whilst there was a budget gap for 17/18, 18/19 and 19/20, the gap would be covered by the transitional reserve. Subsequent years would require additional savings, however the Council had already identified a number of schemes to deliver the savings. The February 2019 strategy highlighted that, if expected savings were delivered, then the transitional reserve would cover the period up to the end of 2022-23.</p> <p>In 2017/18 the Council reported a net favourable outturn variance of £270k. The quality of the financial monitoring reports at the Council are of a good standards and include appropriate detail to gain an understanding of its financial position.</p>	No issue have been identified.

Independence and ethics

Independence and ethics

- We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements
- We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.
- Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix C

Audit and Non-audit services

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

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	<p>Property, Plant and Equipment</p> <ul style="list-style-type: none"> The Council's revaluations should be completed to the 31st March. The Council should develop a formal process for documenting its consideration on the carrying value of assets not formally revalued as part of the 5 year cycle to confirm they are not materially misstated. The Council should revalue surplus assets on an annual basis. 	High	<ul style="list-style-type: none"> The Council has implemented the recommendation that revaluations should be completed to 31st March for subsequent years accounts. The Council accepts that a formal process is required for assets not formally valued and is working on a process to be able to evidence this fact going forward. The Council will revalue surplus assets on an annual basis. 	<ul style="list-style-type: none"> Done – Senior Property Officer 31/12/2022 – Head of Finance & Senior Property Officer Implemented for the current years accounts – Senior Property Officer
2	<p>Investment Properties</p> <ul style="list-style-type: none"> Investment Properties should be revalued on an annual basis. 	Medium	<ul style="list-style-type: none"> The Council has few investment properties the total value of which does not breach the materiality threshold, however going forward they will be revalued annually. 	<ul style="list-style-type: none"> Implemented for the current years accounts – Senior Property Officer
3	<p>Heritage Assets</p> <ul style="list-style-type: none"> Heritage Assets should be valued every five years or carried at cost. 	Low	<ul style="list-style-type: none"> The Council will consider this recommendation and implement where practicable. 	<ul style="list-style-type: none"> 31/12/2022 – Head of Finance
4	<p>Grants</p> <ul style="list-style-type: none"> Evidence should be maintained for all grant notifications received. 	Medium	<ul style="list-style-type: none"> This recommendation was implemented in March 2020. 	<ul style="list-style-type: none"> March 2020 – Head of Finance

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
5	<p>Cash and Bank</p> <ul style="list-style-type: none"> The Council should review the reconciling items within the Bank account reconciliation seeking to resolve them appropriately. Cash flow forecast also had a trivial balancing amount and this should be resolved. 	Medium	<ul style="list-style-type: none"> Full review to be conducted and outstanding items to be resolved or written off where appropriate. This is a priority and the Council has engaged extra resource to address this issue. 	<ul style="list-style-type: none"> 30/09/2022 – Head of Finance
6	<p>Employee Remuneration</p> <ul style="list-style-type: none"> The Council completed tests in relation to IR35 for a member of staff however did not retain the paperwork. Paperwork should be retain to evidence such checks have been completed. 	Medium	<ul style="list-style-type: none"> Paperwork in now retained. 	<ul style="list-style-type: none"> Done
7	<p>Accounts Preparation</p> <ul style="list-style-type: none"> Procedures should be included to ensure accounts are fully reconciled before being subject to audit. 	High	<ul style="list-style-type: none"> We have implemented a process for cross checking figures and proof reading the statements. This will be done for all accounts going forward. 	<ul style="list-style-type: none"> Done

Audit Adjustments

Impact on adjusted misstatements on current year

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2018.

	Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £'000
1	Deferred capital receipts had been incorrectly taken through the CIES for both expenditure and income			
	Expenditure	375		756
	Other Income	381		
2	As part of the sale of Rossendale Transport Company the short term loan should have been written off through revenue proceeds and not capital	400		400
3	The following adjustment was made to align the employer contributions made to the amount included in the IAS 19 schedule.	48		48
4	New homes bonus income was included in Net Cost of Services however it is not a ring fenced grant therefore has been moved to non service related government grants.			
	Income in net cost of services	835		
	Non service related government grants	(835)		Nil

Audit Adjustments

Impact on adjusted misstatements on current year

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2018.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £'000
5 As part of a review on the transactions made on the disposal of the transport company various adjustments were made to the statements:			
Gains or loss on disposal of fixed assets – the original entries were removed	-645		3000
Expenditure	3,645		
Income			
Gain or loss on disposal of other assets – this row was added to include the transactions from the sale of the subsidiary company.	645		(3,395)
Expenditure	-1740		
Income	-2,300		
Donated Assets		(252)	
General Fund – As the short term loan was revenue it had to be funded by revenue and not the capital receipt.		(645)	
Earmarked reserves – Whilst reviewing the entries, we identified an entry which was credited but should have been debited.		897	
Capital receipts reserve			
6 In 2018 the council revalued the main offices, as the revised revaluation changed materially the adjustment was put through the 2017/18 accounts.	699	(699)	699
7 An amount in creditors included debit balances therefore this has been amended to debtors			
Short Term Debtors		218	
Short Term Creditors		(218)	

Audit Adjustments

Impact on adjusted misstatements on prior year comparatives

The error identified in relation to the treatment of a non ring fenced grant was also identified in 2016/17. Given the material nature of the error, the prior year comparatives are required to be restated under the requirements of the accounting standards. The impact of the restatement is set out below.

	Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £'000
1	New homes bonus grant is not ring fenced therefore should not be included in Net Cost of Services but within the Surplus or Deficit on Provision of services.			
	Income in net cost of services	975		
	Non service related government grants	(975)		

As the 2016/17 were audited after the draft statements for 2017/18 were issued a number of amendments have been made to the comparatives in the 2017/18 accounts.

Audit Adjustments

The summary below provides details of adjustments identified during the 2017/18 audit which have been made to the financial statements:

- Note 1 Expenditure funding analysis and Note 2 Expenditure and Income analysed by nature have been amended to reflect the changes in the CIES
- Note 5 Trading operations - has been updated to show the brought forward balances for 2016/17 and the 2017/18 values.
- Note 6 Retained business rates has been updated to reflect the £52k reduction to the Lancashire Business Rates Pool Tariff
- Note 7 Grant Income has been amended to show the change in treatment for the New Homes Bonus Grant.
- Note 9 Senior officers' remuneration the accounts were updated for the salary of the Acting Director 2016/17 values 2016/17 comparative is disclosed as 80,317 per 2016/17 audited statements should be 79,237
- Note 10 Other officers' remuneration Acting Director should be in band £50,000 to £54,999, Head of Finance and Property Services should be in band £60,000 to £64,999, the 2016/17 figures were amended to agree to the audited accounts.
- Note 13 Adjustments between accounting basis and funding basis under regulations has been adjusted to reflect the changes made on the CIES - has been increased by £808k has capital receipts was included as a credit balance but should be a debit amount and a difference with the employer contributions listing. The remaining changes were in relation to the change in accounting entries for the disposal of the subsidiary company.
- Note 14 Property plant and equipment
 - Note 14a Movements during the year has been amended to reflect the revaluation of Futures Park for land and buildings
 - Community assets have been amended to agree to the asset register.
 - Revaluation decreases to the provision of services has been amended by £59k to agree to Note 13
 - Additional disclosure was included on the fair value hierarchy for surplus assets
 - Note 14c Revaluation Programme was amended to reflect the change in valuation for Futures Park.
- Note 15 Investment properties additional disclosure was included on the fair value hierarchy.
- Note 17a Capital Financing Requirement has been incorrectly headed as "Capital Expenditure on Council Assets."
 - Note was amended to reflect the changes made in relation to the sale of the transport company.
- Note 18b Disclosures by lessor, the lease income for industrial properties was amended.
- Note 21 Financial Instruments: Trade debtors total in tables in paragraphs 21a, 21c and Note 22 was disclosed as 1,238. This total incorrectly includes the bad debt provision for Council Tax and NDR debtors. The amended total for the bad debt provision in Note 22 is -774, so that the total for trade debtors should be 2,115. Disclosure on the fair value hierarchy was added. 2016/17 figures have been amended for long and short term receivables
- Note 24 Debtors and Note 28 Creditors The creditors listing includes a balance in respect of HB Subsidy 218,067.00 This is a debit amount and has been transferred to the debtors balance.

Audit Adjustments

- Note 32a Earmarked reserves, the transitional reserve included an incorrect adjustment of £645k which has been reversed.
- Note 32b Capital receipts reserve was amended to reflect the changes made to the accounting for the sale of the transport company.
- Note 33a Revaluation reserve was adjusted to reflect the valuation for Futures Park.
- Note 34 further disclosure has been added on the prepayment made to the pension fund
- Cash Flow Statement and Movement in reserves statement have been amended to reflect the required changes made.
- Note 36a Reconciliation of Revenue Surplus to Net Cash Flow there is a reclassification of the cash impacts of changes in Long Term Debtors and Other Income as 'Net Cash Flows from Investing Activities
- Note 37 Accounting Policies re financial instruments has been updated to include details on the fair value hierarchy
- A prior period adjustment has been made therefore the accounts have been amended to clearly show this and a note completed to highlight the figures which have changed.
- Collection Fund Note 1 Surplus/deficit apportionment to the major preceptors has been amended to agree to the CIES
- Collection Fund Note 2 Collection fund adjustment account - the presentation of the note table has been amended
- Group Accounts have now been included in the financial statements to reflect the expenditure incurred by Rossendale Transport Limited whilst it was owned by the Council up to 12 January 2018.
- Note 2 Prior year figures have been amended to reconcile to the amended accounts
- Note has been added to highlight the prior period adjustment
- Narrative statement has been amended to reflect the changes made to the financial statements.
- Annual Governance has been updated to reflect the update on significant issues.

Unadjusted Misstatements

We identified 4 grants in our testing sample where the council was unable to locate any supporting documentation for the full amount. The total value of these grants was £862k and the amount not supported by evidence was £509k We have applied an error rate to the residual balance and the total extrapolated error is 516k.

Valuation of the Bus Depot. There is a difference of 50k between the ledger amount and the Valuation Report. Report shows £2.250m, ledger shows £2.3m.

Fees

We confirm below our final fees charged for the audit.

Audit Fees

	Proposed fee	Indicative fee
Council Audit	£45,796	£101,540
Grant Certification	£6,756	£6,756
Total audit fees (excluding VAT)	£52,552	£108,296

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

The indicative audit fee for 2017/18 is £85,540, this reflects issues relating to account's preparation, audit evidence and asset valuation as described in this report. The indicative audit fee for 2016/17 will be £61,796, this reflects issues as documented in the 2016/17 Audit findings report.

Non Audit Fees

We confirm that there are no non-audit or audited related services that have been undertaken for the Council.

Impact of Covid 19

Over the last six months the current Covid-19 pandemic has had a significant impact on all our lives, both at work and at home. The impact of Covid-19 on the audit of the financial statements has been multifaceted. This included:

Revisiting planning- we have needed to revisit our planning and refresh our risk assessments, materiality and planning as well as additional work in areas such as going concern and disclosures in accordance with IAS 1 in particular in respect to material uncertainties.

Managements assumptions and estimates - there is increased uncertainty over many estimates including investment and property valuations.

Remote working – the most significant impact of terms of delivery is the move to remote working. We, as have other auditors, have experienced delays and inefficiencies resulting from this new working environment. This is understandable and arise from the availability of relevant information, the need for us to devise alternative methods to evidence the veracity of the information provided and not being able to sit with an officer to discuss a query or a working paper. Obtaining an understanding via teams or telephone is often more time consuming.

We have been discussing the matter with PSAA over the last few months and these issues are similar to those experienced in the commercial sector and the NHS. In both sectors there is a recognition that audits will take longer with commercial deadlines expended by four months and the NHS deadline by one month. The FRC has also issued guidance to companies and auditors setting out its expectation that audit standards remain high and of additional work needed across all audits. The link attached <https://www.frc.org.uk/about-the-frc/covid-19/covid-19-bulletin-march-2020> sets out the expectations of the FRC.

Please note that any additional proposed fees are subject to approval by PSAA in line with the terms of engagement.

