

The Audit Findings for Rossendale Borough Council

Year ended 31 March 2016

March 2019

Robin Baker

Director

T (+44)7880 456 159

E robin.j.baker@uk.gt.com

Simon Hardman

Manager

T (+44)7880 456 202

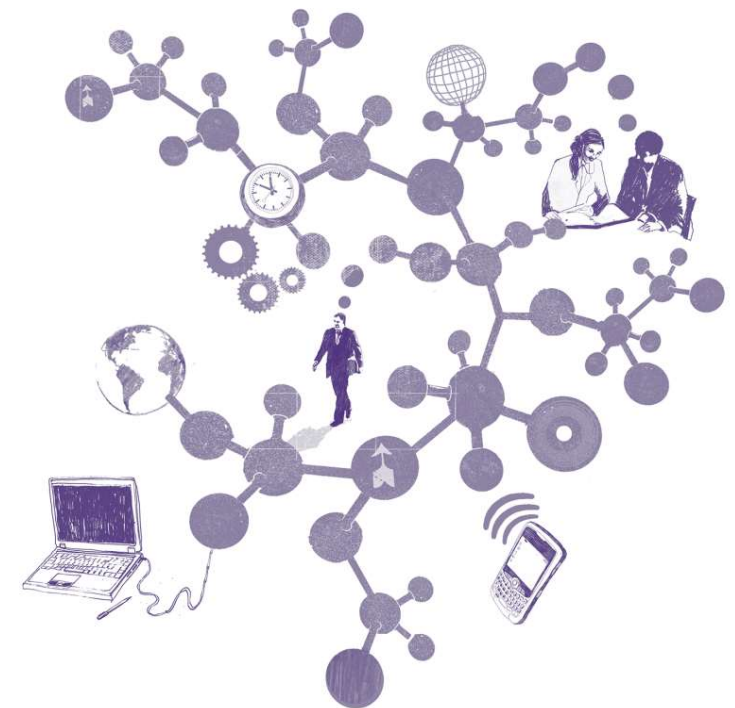
E simon.hardman@uk.gt.com

Sophia Iqbal

Assistant Manager

T (+44)7342 060 309

E sophia.s.iqbal@uk.gt.com



Cllr Marriott
Rossendale Borough Council
Futures Park
Bacup
Rossendale
OL13 0BB

1 March 2019

Dear Cllr Marriott

Audit Findings for Rossendale Borough Council for the year ending 31 March 2016

This Audit Findings report highlights the significant findings arising from the audit for the benefit of those charged with governance (in the case of Rossendale Borough Council, the Audit and Accounts Committee), as required by International Standard on Auditing (UK & Ireland) 260. Its contents have been discussed with management.

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

Robin Baker
Director

Chartered Accountants

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: Grant Thornton House, Melton Street, Euston Square, London NW1 2EP. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority.
Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions. Please see grant-thornton.co.uk for further details.

Contents

Section	Page
1. Executive summary	4
2. Audit findings	9
3. Value for Money	25
4. Other statutory powers and duties	31
5. Fees, non-audit services and independence	33
6. Communication of audit matters	35

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 Council ('the Council') and the preparation of the Group and Council's financial statements for the year ended 31 March 2016. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 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 consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with required guidance.

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 relevant period.

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

As members will be aware there has been a significant delay in completing the audit of the Council for 2015/16 due to the fall out from the Council's Empty Homes Programme and the Internal Audit investigation. Progress has now been made in reviewing the scheme and agreeing on the final number of properties brought back into use and the resultant grant income due to the Council. The opening balances for 2015/16 have had to be significantly revised to reflect the re-stated 2014/15 accounts which have now been audited. Our audit approach was set out in our Audit Plan which was presented to the committee in March 2016.

Our audit is now substantially complete although we are finalising our procedures in the following areas:

- review of the final version of the financial statements
- obtaining and reviewing the management letter of representation, and
- updating our post balance sheet events review, to the date of signing the opinion

Executive summary

Key issues arising from our audit

Financial statements opinion

At this stage, and subject to the satisfactory completion of the outstanding tasks set out above, we anticipate providing an unqualified opinion in respect of the revised financial statements.

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

- Due to the significant adjustments made to the 2014-15 financial statements to reflect the changes associated with the Empty Homes Programme there were significant amendments required to the 2015-16 financial statements.
- A number of other amendments were 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 accounts

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 report highlighted that normal management controls had been 'over-looked or over-ridden' and there was a lack of adequate supervision of the lead officer who was responsible for the Empty Homes scheme.

The Council accepted the findings of the report and has since taken action to rectify the identified failings, has also made progress in implementing the Empty Homes scheme and improve its procedures. Whilst action has now been taken to address the issues identified our view is that for 2015/16 there were clearly significant weaknesses in the Council's overall management arrangements for managing its affairs and also clear evidence that key internal controls were not operating effectively.

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.

Key audit and financial reporting issues

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 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.

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 and the issue has been highlighted in the Annual Governance Statement.

Further details are provided within section two of this report.

Value for Money

We have largely completed our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources for 2015/16. The internal audit investigation into the Empty Homes Programme highlighted widespread deficiencies in the Council's oversight and management of a key corporate project. The report was issued in November 2015 and, given the deficiencies outlined in the report, whilst action has now been taken to address the issues identified, it is not clear that appropriate arrangements were in place in 2015/16.

At this stage, and subject to any final considerations, our intention is to issue a qualified 'adverse' VfM conclusion indicating that the Council did not have adequate arrangements in place in 2015/16 to deliver value for money in the use of resources.

Further detail of our work on Value for Money are set out in section three of this report.

Other statutory powers and duties

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.

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 2016.

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
March 2019

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 International Standard on Auditing (UK & Ireland) (ISA) 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 £0.592m (being 1.5% of 2014/15 gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and identified the following issues that led us to revise our overall materiality to £0.564m (being 1.5% of gross revenue expenditure in the 2015/16 revised accounts).

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 £0.028m. Our assessment of the value of clearly trivial matters has been adjusted to reflect our revised materiality calculation.

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
Cash and cash equivalents	All transactions made by the Council affect the cash balance and it is therefore considered to be material by nature.
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.
Disclosure of auditors' remuneration in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to 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 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
1.	<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 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; and • the culture and ethical frameworks of local authorities, including Rossendale Council, mean that all forms of fraud are seen as unacceptable. 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<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>Work completed includes:</p> <ul style="list-style-type: none"> • review of entity controls • testing of journal entries • review of accounting estimates, judgements and decisions made by management • review of 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> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

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
3.	<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>	<ul style="list-style-type: none"> • Review of management's processes and assumptions for the calculation of the estimate. • Review of the competence, expertise and objectivity of any management experts used. • Review of the instructions issued to valuation experts and the scope of their work • Discussions with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions. • Review and challenge of the information used by the valuer to ensure it was robust and consistent with our understanding. • Testing of revaluations made during the year to ensure they were input correctly into the Council's asset register • Evaluation of the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value. 	<p>A number of amendments were made to the 2015/16 accounts and these are set out later in this report.</p>
4.	<p>HCA Empty Homes Programme In 2012 the Council bid for, and was allocated, funding by the Homes and Communities Agency (HCA) under its Affordable Homes Programme 'Bringing Empty Homes Into Use'. A significant amount of this funding was applied to lease and repair properties via a private sector revolving loan scheme. The Council is now the lessor of approximately 359 properties. Due to a number of issues relating to the scheme, the accounting entries are potentially complex.</p>	<ul style="list-style-type: none"> • Gained an understanding of the nature of the on-going arrangements and related transactions including a review of supporting documentation • Carried out testing of the transactions in the financial statements to ensure they are consistent with our understanding • Ensured that accounting entries in the financial statements are consistent with our understanding of supporting documentation and with the requirements of the CIPFA Code of Practice. 	<p>A number of amendments were made relating to the HCA Empty Homes Programme and are included in the schedule of errors and adjustments later in the report.</p>

Audit findings against significant risks continued

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
5	<p>Valuation of pension fund net liability</p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.</p>	<ul style="list-style-type: none"> • Documentation of the key controls that were put in place by management to ensure that the pension fund liability was not materially misstated. • Walkthrough of the key controls to assess whether they were implemented as expected and mitigate the risk of material misstatement in the financial statements. • Review of the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation. • Gaining an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made. • Review of 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>Our audit work has not identified any significant issues in relation to the risk identified.</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.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Employee remuneration	Employee remuneration accruals understated (Remuneration expenses not correct)	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • completed testing of individual payroll transactions 	Our audit work has not identified any significant issues in relation to the risk identified.
Operating expenses	Creditors understated or not recorded in the correct period (Operating expenses understated)	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • Completed testing of individual items of expense 	Our audit work has not identified any significant issues in relation to the risk identified.



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	Recorded debtors not valid Allowance for doubtful accounts not adequate	We are able to rely on the work performed by the external auditor (KPMG) of Rossendale Transport Ltd	The entries in the Council's revised accounts have been updated to reflect the audited financial statements for Rossendale Transport Ltd.

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 2015/16 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. 	
<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. 	



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
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 managements' assessment that the going concern basis is appropriate for the 2015/16 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 Committee. The internal audit investigation into the Empty Homes programme resulted in a referral to the police in relation to the failure of the Council's external provider. 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 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 on page.

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.

Adjusted misstatements

	2015/16	Final		
	Original	Restated	Difference	Relating to:
Restated MIRS				
Surplus/(deficit) on Provisions of Services	-1,288	-371	-917	Surplus/(deficit) on Provisions of Services
Other Comprehensive Expenditure & Income - Unusable Reserves	4,811	5,059	-248	Errors working through from the CIES
Adjustments between accounting basis & funding basis under regulations	879	1,127	-248	Errors working through from the CIES
Transfer to/from Reserves	409	-756	1,165	
Restated CIES				
<i>Housing General Fund</i>				
Gross Expenditure	26,353	24,422	1,931	HCA moved to provision as outstanding not 15/16 transactions
<i>Non-Distributed Costs</i>				
Gross Expenditure	12	259	-247	PPE adjustment
Surplus on reval PPE	-181	-429	248	Adjustment made as part of the reconciliation to the asset register
Balance Sheet				
Other Land and Buildings	21,469	21,523	-54	
Community Assets	948	925	23	Adjustment made as part of the reconciliation to the asset register
Assets under construction	796	765	31	Adjustment made as part of the reconciliation to the asset register
Short-term Provisions	-1,556	-2,242	686	Increased due to HCA
Earmarked Reserves	9,440	8,754	686	Decreased due to HCA
Cash Flow Statement				
Net surplus/(deficit) on provisions of services	-1,288	-372	-916	Net surplus/(deficit) on provisions of services
Adjustment for noncash movements	2,216	1,912	304	
Adjustments for items that are investing and financing activities	-920	447	-1,367	
Additions to PPE & Intangible Assets	-673	-979	306	Additions to PPE & Intangible Assets
Increase/(decrease) in long-term debtors	386	-386	772	
Other income	80	-590	670	
National non-domestic rates	-518	-744	226	

Misclassifications and disclosure changes

	2015/16	Final		
	Original	Restated	Difference	Relating to:
Note 10				
Heritage Lottery - Bacup Townscape Heritage Initiative	442	210	232	Heritage Lottery - Bacup Townscape Heritage Initiative - amended figure following testing
Note 15				
<i>Impairment of PPE</i>				
General Fund Balance	1	322	-321	Amended note as part of PPE
<i>Revaluation gain/loss on PPE</i>				
General Fund Balance	73	0	73	amended note as part of PPE
<i>Capital Expend charged to General Fund</i>				
General Fund Balance	-833		-833	Split to separate Empty prop homes
Note 17				
<i>Additions</i>				
Land & Buildings	575	566	9	Amended note as part of PPE
Vehicles, PPE	293	292	1	NFA
Community Assets	23	32	-9	Amended note as part of PPE
<i>RevaluationIncreases/(decreases) to Revaluation Reserve</i>				
Land & Buildings	181	431	-250	Amended note as part of PPE
<i>RevaluationIncreases/(decreases) to Provisions of Services</i>				
Land & Buildings	-71	-4	-67	Amended note as part of PPE
<i>Reclassifications - Others</i>				
Land & Buildings	-677	-694	17	Amended note as part of PPE
Assets under Construction	1,077	894	183	Amended note as part of PPE
Surplus Assets	-400	-200	-200	To AUC re town hall and valley centre
<i>Depreciation for the year - to Provisions of Services</i>				
Land & Buildings	-200	-196	-4	nfa
<i>Impairment losses/(reversals) to Revaluation Reserve</i>				
Land & Buildings	0	-216	216	Amended note as part of PPE
Community Assets	0	-32	32	Amended note as part of PPE
<i>Impairment losses/(reversals) to Provision of Services</i>				
Land & Buildings	0	-73	73	Amended note as part of PPE
<i>Reclassifications</i>				
Land & Buildings	155	203	-48	Amended note as part of PPE
Assets under Construction	-155	-203	48	Amended note as part of PPE
<i>A breakdown of Buildings Owned</i>				
Surplus Assets	14	12	2	nfa
Surplus Assets Held for Sale	3	2	1	nfa

Misclassifications and disclosure changes

	2015/16	Final	Difference	Relating to:
	Original	Restated		
Note 20				
PPE	971	970	1	nfa
Empty Homes Scheme	454	-		Agreed to HCA workings
Other Projects	678	-		Revised note agreed
Government Grants and other contributions	-781	-707	-74	Revised note agreed
Direct revenue contributions	-833	-325	-508	Revised note agreed
Increase/(Decrease in Capital Financing Requirement	-237	-521	284	Total
<i>Capital expenditure on Council assets</i>				
Car Parks	58	-		
Others	48	106	-58	
Note 22				
Profit/(Loss) on ordinary activities before taxation	158	21	137	
Tax on profit on ordinary activities	0	-28	28	
Other Comprehensive Income	0	429	-429	
Note 33				
Empty Homes Renovation Provision	1,164	1,850	-686	Revised note agreed to HCA
Note 35				
<i>Budget Volatility</i>				
Transfers between Reserves	-268	0	-268	
<i>Pension Fund</i>				
Transfers between Reserves	-619	-121	-498	
<i>Economic Regeneration</i>				
Transfers between Reserves	-1	0	-1	
<i>Performance Reward</i>				
Transfers between Reserves	-236	0	-236	
<i>Directorate Investment</i>				
Transfers between Reserves	-46	0	-46	
<i>Directorate Operational</i>				
Transfers between Reserves	-554	0	-554	
<i>Pride Works</i>				
Transfers between Reserves	-15	0	-15	
<i>Vehicle Repairs & Replacements</i>				
Transfers between Reserves	-231	0	-231	
<i>Transitional Reserve</i>				
Income & Transfer to Reserves	2	0	2	
<i>Community Right to Challenge</i>				
Transfers between Reserves	-32	0	-32	
<i>Individual Registration</i>				
Transfers between Reserves	-27	0	-27	
<i>Planning Strategy</i>				
Transfers between Reserves	-54	0	-54	
<i>Tourism Strategy</i>				
Transfers between Reserves	-38	0	-38	
<i>Empty Homes Strategy</i>				
Income & Transfer to Reserves	0	617	-617	
Transfers between Reserves	2,000	0	2,000	
Utilised from Reserves	-548	0	-548	
Balance 31st March 2016	1,452	766	686	

Misclassifications and disclosure changes

	2015/16	Final	Difference	Relating to:
	Original	Restated		
Note 36				
36a				
PPE	180	429	-249	PPE note amended
Value of assets disposed of in the year	-63	-64	1	NFA
Impairments in the year	0	-248	248	PPE note amended
36b				
PPE	-73	0	-73	PPE note amended
Write off NBV of disposals	-15	-14	-1	NFA
Impairment of PPE assets	-1	-74	73	PPE note amended
Revenue Contributions	510	0	510	HCA amendment
Useable Capital Receipts	0	510	-510	HCA amendment
Note 39				
39a				
<i>Depreciation and impairments</i>				<i>Depreciation and impairments</i>
RBC	1,185	1,506	-321	Taxation
Group	1,891	2,065	-174	(increase)/decrease in Debtors
<i>Revaluation losses charged to Revenue</i>				increase/(decrease) in Creditors
RBC	73	0	73	increase/(decrease) in Provisions
Group	73	0	73	Group
<i>Pension Fund Adjustment</i>				0 MIRS - Surplus/(deficit) on Provisions of Services
Group	268	335	-67	Cash and Cash equivalents
<i>Long Term Debtors</i>				0 Short term borrowing
RBC	0	386	-386	Cash Flow Statement
Group	0	386	-386	Net surplus/(deficit) on the provision of service
<i>Inventories</i>				0 Adjustment for non-cash movements
Group	30	-55	85	Additions to PPE & intangible assets
<i>Debtors</i>				0
Group	-1,489	-1,768	279	
<i>Adjusted for Cash (Outflows)/Inflows - agency</i>				0
RBC	1,193	1,419	-226	
Group	1,193	1,419	-226	
<i>Creditors</i>				0
Group	14	180	-166	
<i>Grant Receipts in Advance</i>				0
Group	-903	-805	-98	
<i>Short-term Provisions</i>				0
RBC	1,125	-39	1,164	
Group	1,142	-39	1,181	
<i>Long-term Provisions</i>				0
Group	517	762	-245	
<i>Additions to PPE & Intangible assets</i>				0
Group	44	5	39	
<i>Proceeds from the sale of PPE</i>				0
RBC	143	-143	286	
Group	110	-162	272	
<i>Other Income</i>				0
RBC	80	590	-510	
Group	80	590	-510	
<i>Change in Government Grants Unapplied</i>				0
RBC	-1,143	0	-1,143	
Group	-1,143	0	-1,143	

Misclassifications and disclosure changes

	2015/16	Final		
	Original	Restated	Difference	Relating to:
Note 40			0	
<i>Premises Expenses</i>			0	
Business Directorate	2,107	1,471	636	
<i>Other Service Expenses</i>			0	
Place Directorate	3,453	3,263	190	
Business Directorate	3,133	1,568	1,565	
			0	
<i>Reconciliation of Directorate Income & Expenditure to Cost of Services in the CIES</i>			0	
Net Expenditure in the Directorate Analysis	10,555	8,164	2,391	
Impairment of PPE	1	322	-321	
Losses on revaluation of PPE	73	0	73	
Change in Unapplied Government Grants	-639	376	-1,015	
Transfers (to)/from Earmarked Reserves	-968	-756	-212	

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 2015. AGN 03 identifies one single criterion for auditors to evaluate:

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed 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 in 2016 and identified three significant risks, which we communicated to you in our Audit Plan. We identified risks 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 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.

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 risks that we identified in the Council's arrangements. In arriving at our conclusion, we have considered the findings and conclusions from the Internal audit investigation into the Empty Homes Programme which highlighted widespread deficiencies in the Council's oversight and management of what is a key corporate project. Management has been unable to finalise the financial statements for some considerable time due to the uncertainty over the level of HCA grant funding that would be retained and the final adjustments to opening balances.

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 later in this section.

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that because of the significance of the matters we identified in respect of Empty Homes Programme and the weaknesses in the governance and risk management procedures, we are not satisfied that the Council has made proper arrangements to secure economy, efficiency and effectiveness in your use of resources. We therefore propose to give a qualified 'adverse' conclusion.

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 completed	Findings
<p>Governance, risk management and decision making 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>The Internal Audit report, published in November 2015, identified extensive failings in the Council's governance, management and risk management arrangements, including:</p> <ul style="list-style-type: none"> - No assessment of risks and required controls associated with the project took place - Normal management controls, expected procedures and statutory requirements were over-looked or over-ridden - Other than the decision to act as accountable body, no decisions were made by members and no information provided to them - Insufficient input from the Monitoring Officer and S151 Officer, and insufficient attention given to financial and legal matters - Inadequate understanding of the programme and how it was being operated by the contractor - The contractor was poorly commissioned and inadequately procured - The contractor appointed was inadequately skilled and failed to deliver unspecified requirements, instead incurring considerable liabilities on the Council's behalf. - The contractors work was not directed effectively and was inadequately monitored. Payments were made in ways that were not agreed and not transparent, for work that does not appear to have been done or completed to adequate standards. - Warning signs from external experts' advice and guidance was ignored. - There was inadequate supervision of a single council officer who was effectively given responsibility for the management of the entire programme. <p>The Council responded positively to the report and produced a detailed response. As mentioned in these reports many of the required controls were in place, however individuals at the Council had overridden the controls. Understandably therefore the improvement plan focussed on cultural issues as well as strengthening internal control and governance arrangements.</p> <p>The improvement plan was finalised in 2016/17 and as our review is on arrangements in place up to 31 March 2016 the VfM Conclusion is expected to be qualified for a second year. That adverse judgement is consistent with the Head of Internal Audit Opinion who concluded that they could give only limited assurance overall over the council's governance, risk management and internal control arrangements for 2015/16.</p> <p>In the report they noted that whilst there are generally sound systems of internal control the work on the Empty Homes Programme identified that these internal control procedures were overlooked or overridden, with serious consequences for the organisation.</p>

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 completed	Findings
<p>HCA Bringing Empty Homes Into Use</p> <p>The Council is now the lessor of approximately 359 properties acquired under a lease and repair arrangement with a private sector revolving loan scheme. The Council is responsible for the ongoing management and financial liabilities of this programme for the foreseeable future.</p>	<p>We considered the Council's plans and forecasts for the ongoing management of the properties acquired under a lease and repair arrangement.</p>	<p>The approved budget for 2016-17 for the Empty Homes scheme was for a net spend of £200k. However the scheme was hit by both a slower than expected pace of renovations and lettings. At the end of quarter 1 there was already a forecast adverse variance of £0.590m, with the main costs being those associated with property voids and under occupancy. By the end of the year the variance had increased to over £1m due to a rise in repairs and a provision for doubtful debts.</p> <p>Such an overspend demonstrates that the plans and forecasts developed in 2015-16 were not adequate and the cost of the scheme in 2015-16 was 500% higher than originally budgeted. Given this impact and the comments for the previous risk, we are planning to issue a qualified VfM Conclusion for 2015-16.</p>
<p>Regeneration and development</p> <p>The Council has identified regeneration as a key priority, and established the RTB partnership in 2013 to provide greater capacity for development. Key regeneration projects include:</p> <ul style="list-style-type: none"> • the re-development of Rawtenstall Town Centre • Bacup Town Heritage Initiative (THI) <p>Delivery of regeneration priorities will be dependent on funding sources and how the Council can leverage capacity from partners, including developers and other public sector bodies.</p>	<p>We considered the delivery of key regeneration and development projects.</p>	<p>Progress on the major schemes has been made, though slower than had been shown in the capital programme. It is not unusual to see slippage in capital programmes within local authorities. Up to 2018/19 the slippage at Rossendale has continued to be significant, though the Council has explained that this is expected as the capital programme figures show the total value of schemes, rather than the amount for the individual year.</p> <p>For the Bacup THI scheme slippage at the end of 2015/16 totalled £1.789m out of a total slippage figure of £4.9m. The original capital programme in the year was only £0.825m however by the end of the year this had increased to over £7m. The capital programme for 2016/17, which was agreed in 2015/16, was approved at a level of £0.955m but ended up at over £9m.</p> <p>The Bacup scheme has taken several years to be completed, with spend continuing in to 2018/19. Rawtenstall Town Centre redevelopment started later than the Bacup scheme and is continuing to be delivered.</p>

Significant difficulties in undertaking our work

Given the issues identified as part of our 2014/15 audit, we have experienced difficulties in completing our work. A significant number of amendments were made to the 2014/15 accounts which then impacted on the 2015/16 financial statements. Working through the issues has taken time for both the Council and the audit team. We would therefore like to express our thanks to the Council's Finance Manager for her assistance throughout this difficult process.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Any other matters

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

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

	Issue	Commentary
1.	Public interest report	<ul style="list-style-type: none">• We have not yet concluded whether the findings relating to the Empty Homes scheme warrant a Public Interest Report.
2.	Written recommendations	<ul style="list-style-type: none">• We have not yet concluded whether the findings relating to the Empty Homes scheme warrant formal written recommendations.
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

Fees, non-audit services and independence

We confirm below our fees charged for the audit.

Fees

	Per Audit plan £	Actual fees £
Council audit	45,796	TBD
Grant certification	5,874	£5,874
Total audit fees	51,670	TBD

The fees above were set by the Public Sector Audit Appointments Ltd. We may seek an additional fee to cover the work that we have been required to undertake on the Empty Homes Programme.

Grant certification

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. We have completed no further certification work at the Council.

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 Standards and therefore we 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.

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

International Standards on Auditing 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.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, 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		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓
Significant 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	✓	✓



© 2019 Grant Thornton UK LLP. All rights served.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton UK LLP is a member firm of Grant Thornton International LTD (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL, and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

grant-thornton.co.uk