

Agenda

MUNICIPAL YEAR 2016-2017

Audit Committee



HYNDBURN

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an excellent council

Monday, 27 June 2016 at 5.30 pm,
Scaitcliffe House, Ormerod Street, Accrington

Membership

Chair: Councillor Noordad Aziz
Vice-Chair: Councillor Diane Fielding

Councillors Noordad Aziz, Julie Livesey, Bernadette Parkinson, Stephen Button and Glen Harrison

AGENDA

1. Apologies for Absence, Declarations of Interest, Dispensations and Substitutions

2. Minutes of the Last Meeting (Pages 5 - 8)

To submit the Minutes of the last meeting of the Audit Committee held on the 21st March 2016 for approval as a correct record.

Recommended - That the Minutes be received and approved as a correct record.

3. Risk Management Monitoring Report and Partnership Review (Pages 9 - 22)

To inform Audit Committee of the outcome of the review of the Operational Risk Register and present to them the annual review of partnerships.

Recommended - That Audit Committee notes the contents of the report.



4. Annual Internal Audit Report & Audit Opinion 2015/16 *(Pages 23 - 50)*

The Head of Audit and Investigations submitted a report to inform and update Audit Committee on the Annual Internal Audit Report and Audit Opinion for 2015/16 and to give details on the performance of the Internal Audit Team and final outturn position for 2015/16.

Recommended - That the report be noted for informational purposes.

5. Public Sector Internal Audit Standards Self-Assessment and Quality Assurance & Improvement Programme *(Pages 51 - 94)*

The Head of Audit and Investigations submitted a report to inform members of the updated self-assessment of the Public Sector Internal Audit Standards (PSIAS) carried out by the Head of Audit & Investigations and also the Quality Assurance and Improvement Programme (QAIP) which sets out how we manage any standards that are not compliant, thus ensuring conformance with the PSIA's overall.

Recommended - That Audit Committee notes the updated PSIAS Self-Assessment and updated QAIP.

6. Audit Reports & Key Issues- Progress Report for the Period April- June 2016 *(Pages 95 - 100)*

The Head of Audit and Investigations submitted a report to inform members of the Audit Committee of Audit Reports issued during the period April- June 2016 and bring to the attention of the Committee what the key issues were.

Recommended - That the report be noted for informational purposes.

7. Accounting Policies and Public Inspection of the Accounts *(Pages 101 - 118)*

The Head of Accountancy submitted a report to request approval from members of the Audit Committee of the accounting principles which are used to prepare the statement of accounts for the financial year 2015/16 and to inform the Committee of the revised arrangements for the public inspection of the accounts.

Recommended - That the Audit Committee approves the accounting principles on which the 2015/16 accounts are prepared and notes the new rights of public inspection.

8. Capital Outturn Report 2015/16 *(Pages 119 - 130)*

The Head of Accountancy submitted a report to set out the financial spend on the Council's capital projects for 2015/16. It includes a proposed list of changes to the 2016/17 Capital Programme i.e. slippage from the previous year. The slippage will be funded from the amounts not spent but authorised in 2015/16.

Recommended - That Audit Committee approves the capital items of slippage from the 2015/16 programme.

9. Draft Statement of Accounts 2015/16 (Pages 131 - 220)

The Head of Accountancy submitted a report to inform Audit Committee Members of the outcome of draft Statement of Accounts 2015/16 for Hyndburn Borough Council.

Recommended - That Audit Committee note the Council's draft statement of Accounts for 2015/16.

10. Time/Date/Venue of Next Meeting of Committee

The next meeting of the Audit Committee is scheduled to be held on Monday 19th September 2016 at 5.30pm in the Queen Elizabeth Room at Scaitcliffe House.

11. Audit Committee Supplemental Agenda 27-06-2016 (Pages 221 - 224)

Urgent Business

The Chair is of the opinion that the following items should be considered as urgent, in accordance with Section 100b (4) of the Local Government Act 1972.

Due to the reports being unavailable by the deadlines imposed to publish the agenda in line with legal regulations.

12. Grant Thornton- Planned Audit Fee for 2016/17 (Pages 225 - 228)

To inform members about the audit fee for HBC and the scope and timing of work for 2016/167

Recommended - That the letter be noted for informational purposes.

13. Grant Thornton- Audit Committee Progress and Update for HBC (Pages 229 - 238)

To inform members of the committee with a report on progress in delivering the Grant Thornton's responsibilities as external auditors. It includes a summary of progress and fighting fraud and corruption locally.

Recommended - That the report be noted for informational purposes.

14. Grant Thornton- The Audit Plan for Hyndburn Borough Council (Pages 239 - 260)

To inform members of the committee with a report on the audit plan which sets out for the benefit of those charged with governance and overview of the planned scope and timing of the audit as required by international standard on auditing.

Recommended - That the report be noted for informational purposes.

AUDIT COMMITTEE

Monday, 21st March 2016

Present: Councillor Bill Pinder (in the Chair); Councillors Noordad Aziz, Wendy Dwyer, Julie Livesey, Bernadette Parkinson, and Kath Pratt

In Attendance: Mark Beard, Stephen Brindle, Michael Cunliffe, Mike Walker and Tommy Rooney (Grant Thornton- External Auditors)

Apologies for Absence, Declarations of Interest, Dispensations and Substitutions

Apologies for absence were submitted from Karen Murray (Grant Thornton) and Joe McIntyre.

There were no reported declarations of interest or dispensations.

Minutes of the last Meeting

The minutes of the last meeting held on the 18th January 2016 were submitted for approval.

Resolved - **That the minutes be received and approved as a correct record.**

Risk Management Monitoring Report

The Corporate Performance Manager, Mike Walker, presented a report which informed the Committee of the outcome of the review of the Generic and Strategic Risk Register.

There had been no major changes made to the Generic and Strategic Risk Registers but there had been a number of minor changes made to the Generic Risk Register which were detailed in Appendix 1 of the report.

There had been no changes made to the Strategic and Operational Risk Registers during the review.

A summary of all three registers were details in Appendix 2 of the report

The Operational Risk Register contained information on the HBC refuse collection fleet and a further report will be produced once information had been obtained from a traffic management consultant.

Resolved - **That Audit Committee noted the contents of the report.**

Audit Follow Ups Report for the Period January- March 2016

The Head of Audit and Investigations, Mark Beard, submitted a report to inform Members of the outcome of routine follow-ups following the previously agreed action plans for completed Audit Reports. The follow-ups detailed within the report are those carried out during the period January- March 2016.

Appendix one of the report contained follow ups carried out between January and March 2016 which included details for debtors and council tax & NCR refunds. Two elements had been implemented and one element not implemented.

Resolved - That the report be noted for informational purposes.

Audit Reports and Key Issues - Progress Report for the Period January- March 2015

The Head of Audit and Investigations informed Members of the audit reports issued during the period January- March 2016 and brought to the attention of the Committee what the key issues were.

There was a target of 98% of the audit plan to be completed by the end of the current financial year in terms of audit days completed. The figures contained in the report gave updated details to the end of February and the projected out turn position for 2015/16.

A summary of the main issues arising from audits carried out between January- March 2016 was attached to Appendix 1 of the report and detailed substantial and limited assurance:

- Debt recovery arrangements
- Pest control and shared admin functions
- Other contract issues

There were no issues arising from audits carried out in the following areas:

- Cash receipting & Banking

Resolved - That the report be noted for informational purposes.

Grant Thornton- Audit Committee Update, HBC, Year ended 31 March 2016

Tommy Rooney, informed members of the committee with a report on progress in delivering Grant Thornton's responsibilities as external auditors. It included a summary of emerging national issues and developments that may be relevant to Hyndburn Borough Council. It also included a number of challenging questions in respect of these emerging issues which the Audit Committee considered.

Visits for interim accounts audit had taken place in early March and would be complete by the end of the month although this was later than had been planned.

It was noted that the item in the paper copies of the report titled website re-launch had a link missing although this was clearly visible on the electronic copy which had been circulated in advance of the meeting.

Resolved - **That the report be noted for informational purposes and that the Committee considered questions relevant to the Council.**

Internal Audit Plan 2016-17

The Head of Audit and Investigations submitted a report to inform members of the Audit Committee about the Internal Audit Plan for the financial year 2016/17 and to request that Audit Committee approves the proposed Internal Audit Plan for 2016/17.

Amendments to the Audit plan were detailed along with areas added to the plan.

Appendix 1 contained information on which areas were a priority, which would be monitored and figures of time allocated to individual parts of the plan.

Resolved - **(1) That the report be noted for informational purposes.**
- **(2) That the proposed internal audit plan for 2016/17 be approved.**

Time/Date/Venue of Next Meeting of Committee

Councillor Noordad Aziz placed on record his thanks to the Current Chair, Councillor Bill Pinder who was chairing his last Audit Committee meeting as he was not seeking re-election at the local elections in May 2016.

Councillor Wendy Dwyer also thanked Officers and Members of the Audit Committee for all the work undertaken as she was also not seeking re-election.

Resolved - **That the next meeting of the Audit Committee be held on Monday, 27th June 2016 at 5.30 pm in the Queen Elizabeth Room at Scaitcliffe House.**

Signed:

Date:

Chair of the meeting
at which the minutes were confirmed.

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UNCLASSIFIED

REPORT TO: Audit Committee
DATE: 27th June 2016
REPORT BY: Mike Walker, Corporate Performance Manager

Risk Management Monitoring Report and Partnership Review

1. Purpose of Report

To inform Audit Committee of the outcome of the review of the Operational Risk Register and present to them the annual review of partnerships.

2. Recommendation

I recommend that Audit Committee notes the report.

3. Background

- At its meeting on 29th September 2003, Standards Committee was presented with details of the Council's Risk Management Policy and associated Strategic and Operational Risk Registers.
- The report also set out a protocol for updating the risk registers in addition to ensuring that the risks already identified are monitored and action plans are in place to mitigate against these risks wherever possible.
- Management Team received a report on 15th March, 2006 regarding the transfer of responsibility for updating the Risk Register to the Policy, Partnerships and Performance team (now Corporate Policy Team).
- The protocol for updating the risk tables has been followed and the information gathered forms the basis of this report and any associated documents.
- The risk management definition was revised and adopted by Cabinet on the 13th September, 2007.
- Changes to the structure and accountability protocols for the risk registers were approved by Management Team at their meeting on the 11th June 2008. These changes are reflected in this report.
- Management Team (9th June 2010) and Audit Committee (21st June 2010) accepted a proposal to revise the process for reviewing the risk registers. The proposal was adopted by Cabinet on the 30th June 2010. This revised approach has been followed in this report.
- Management Team (11th January 2012) accepted proposals to revise the structure of the risk registers and Audit Committee were informed of the changes (30th January 2012).
- In October 2013 Internal Audit published a report of their review of partnerships to determine if they are established and managed effectively. The audit report recommended that the list of identified partnerships be reviewed annually. It was agreed that the Corporate Performance Manager would undertake an annual partnership review and report the finding to Management Team and Audit Committee as part of the risk register review process.
- The changes to the operational risk register reflected in this report are correct as at Wednesday 8th June 2016.
- A separate report was presented to Management Team on June 17th, 2016.

4. Reasons for Recommendations

To inform Audit Committee of the amendments to the Operational Risk Register and present to them the annual review of partnerships.

5. Changes to the Operational Risk Register

There have been no major changes made to the Operational Register but a number of minor changes have been made which are detailed in Appendix 1 (Page 4).

The operational risk register contains a number of risks in relation to the Council's vehicle fleet. In light of the issues identified in respect of fleet management and the subsequent recommendations made by the appointed Traffic Management Consultant additional control measures have been put in place in respect of one of the identified risks. The recommendations made by the Traffic Management Consultant do not affect the other vehicle related risks. Changes have been made to the relevant risk and the changes are detailed in Appendix 1 on Page 6.

6. Changes to the Generic and Strategic Risk Register

There have been no major or minor changes made to the Generic or Strategic Risk Registers during this review.

7. Summary Risk Register

A summary list of all risks contained in the Generic, Operational and Strategic Risk Registers is given in Appendix 2 Page 8.

8. Review of Partnerships

In October 2013 Internal Audit published a report of their review of partnerships to determine if the partnerships are established and managed effectively. The audit report recommended that the list of identified partnerships be reviewed annually. In response to this recommendation it was agreed that an annual review would take place and that it would be integrated with the risk register review.

The list of partnerships presented in this report was prepared in March of this year as a result of a request from the Council's External Auditors. A broader interpretation of what constitutes a partnership was used than was the case in the original Internal Audit report published in October 2013. Appendix 3 (Page 10) lists all the partnerships identified in response to the request made by the Council's External Auditors.

9. Alternative Options considered and Reasons for Rejection

Not applicable

10. Implications

Issue	Comments
Financial (including mainstreaming)	None associated with the report recommendations
Legal	None associated with the report recommendations
Assessment of Risk	None associated with the report recommendations
Equality	<i>Does the report or decision propose to introduce or change policy, procedures, working practice or service provision?</i> No
Key Decision <i>Only applicable for Cabinet decisions.</i>	Is the recommendation a Key Decision? No

11. Consultations

Consultation with Directors and Heads of Service has taken place.

12. Links to Corporate Priorities

Priority	Comments
Corporate Governance And Customer Focus	Effective risk management supports the achievement of all the council's objectives but links most directly to Corporate Governance.
Safer Communities	
Strong & Balanced Housing Market	
Thriving Economy	
Safeguarding the Environment	
Valuing Diversity	
Educational Attainment	
Healthier Living	

**13. Local Government (Access to Information) Act 1985:
List of Background Papers**

Strategic Risk Register
Generic Risk Register
Operational Risk Register

14. Freedom of Information

The report does not contain exempt information under the Local Government Act 1972, Schedule 12A and all information can be disclosed under the Freedom of Information Act 2000.

15. Exempt Report

The report **does not** contain exempt information under the Local Government Act 1972 Schedule 12A.

Appendix 1 – Amendments to Operational Risk Register

CHANGES TO OPERATIONAL RISK REGISTER

KEY

New or amended text

~~Deleted text~~

Amendments made by Head of Benefits, Revenues and Customer Contact

Risk Owner: Head of Benefits, Revenues and Customer Contact

FINANCIAL RISK

5

Failure to initiate prompt recovery action

Associated Risk Officers: Revenues Manager

Risk Rating

Likelihood

Rarely or never happened before

Impact

Minor injury/ill health, financial loss up to £500,000, less than 1 week service disruption and/or adverse local media coverage

Priority

Low

Controls - Measures Currently in Place to Manage Risk

- ~~Regular liaison meetings with recovery to improve recovery process~~
- ~~System automated reminder based on set parameter~~
- ~~Clearly documented timetable~~
- *Timetable updated annually for billing and recovery process.*
- *Annual liaison with local Magistrates Clerk to set and agree timetable for CTax/NNDR Liability courts dates.*
- *Continue to review and monitor debts outstanding and ensure all avenues of recovery are exhausted.*
- *Quarterly reports to CMT on collection rates performance.*

FINANCIAL RISK

4

Errors in Cashiering i.e. posting monies to the wrong account

Associated Risk Officers:

Risk Rating

Likelihood

Likely to happen over next 1 to 2 years

Impact

Minor injury/ill health, financial loss up to £500,000, less than 1 week service disruption and/or adverse local media coverage

Priority

Low

Controls - Measures Currently in Place to Manage Risk

- ~~Desk aid and formulated plan identifies officers responsible for various cash receipting functions within the Service, which ensure validation of funds, therefore removing the risk of incorrect postings and balancing of monies received.~~
- ~~Address problem if identified~~
- ~~All payments strands receipted into the Authority have been automated to reduce the risk of posting monies to the incorrect account, thus reducing financial risk to the Authority~~
- ~~Closure of cash office in September 2008, removed the cashiering function and minimised risk of incorrect postings.~~
- Staff awareness of potential risk if postings are incorrect
- Daily balancing of monies to alleviate error risk
- Cash receipting process now fully automated removing the risk of postings to incorrect accounts..
- Automation of bank files and other associated payments files, ie. Bailiffs, DWP. This reduced manual intervention and removes the risk of error.
- *Monthly meetings with colleagues from Accountancy to agree accounts and rectify discrepancies.*

LEGAL RISK

Failure to react to changes in Benefit Legislation

Associated Risk Officers: Benefits Manager

Risk Rating**Likelihood**

Rarely or never happened before

Impact

Serious disabling injury/ill health, financial loss between £500,000 and £2,000,000, significant disruption to service exceeding 1 week and/or adverse national media coverage

Priority

Low

Controls - Measures Currently in Place to Manage Risk

- Liaise with ICT to ensure timely upgrades to Core Benefit System and test system accordingly
- Effective liaison management of software suppliers
- Review processes and incorporate in annual training plan.
- Regular liaison meetings with ICT to ensure compliance with software upgrades to all systems.
- Ensure competent workforce by reinforcing training for new and current legislation.
- Keep abreast of changes in legislation **through circulars, DWP Website and associated legislation**
- Implement all changes in legislation **within planned timescale.**
- **Regular meetings with ICT to agree planned upgrades to all core systems.**
- **Timetable for software updates issued by CSS.**

LEGAL RISK

Failure to meet statutory deadline for issue of Council Tax Bills

Associated Risk Officers: Revenues Manager

Risk Rating**Likelihood**

Rarely or never happened before

Impact

Serious disabling injury/ill health, financial loss between £500,000 and £2,000,000, significant disruption to service exceeding 1 week and/or adverse national media coverage

Priority

Low

Controls - Measures Currently in Place to Manage Risk

- Detailed timetable for issuing of annual bills
- Keep abreast of changes in legislation through circulars, DCLG Website and associated legislation
- Ensure competent workforce by reinforcing training for new and current legislation.
- Liaise with ICT to ensure timely upgrades to Core Council Tax System and test system accordingly
- Effective liaison management of software suppliers
- Review processes and incorporate in annual training plan.
- Regular liaison meetings with ICT to ensure compliance with software upgrades to all systems.
- The service is regularly reviewed to ensure compliance with legislation and statutory requirements.
- Streamlined procedures in place to ensure compliance with legislation for issuing reminders and summons.
- **Timetable for software updates issued by CSS.**
- **Regular meetings with ICT to agree planned upgrades to all core systems.**
- **Implement all changes in legislation within planned timescale.**
- **Agree timetable with outside company for printing and delivery of annual CTax/NNDR bills.**
- **Monitor timetable for printing and delivery of daily bills in-house.**

Amendments made by Head of Parks and Cemeteries

LEGAL RISK

53

Suspension of the Council's vehicle operator's licence

Associated Risk Officers: Fleet Manager

Risk Rating

Likelihood

Rarely or never happened before

Impact

Serious disabling injury/ill health, financial loss between £500,000 and £2,000,000, significant disruption to service exceeding 1 week and/or adverse national media coverage

Priority

Low

Controls - Measures Currently in Place to Manage

- Trained competent maintenance staff
- Comprehensive vehicle maintenance **and inspection** regime (**in line with FTA guidance**) and records in place
- 'FleetMaster' fleet management software installed April 2006 in order to improve quality and security of records - updated September 2015
- Driver policy and handbook
- Fleet driver assessment in place for new starters and all staff updated on a three yearly basis
- Fleet Manager maintains knowledge and keep abreast of legislative change through membership of national transport organisation and attends North West Transport managers meetings
- **All driver documentation checked twice each year (January and July) to ensure all drivers documentation is up to date, meets current legislation and O license requirements**
- **Fleet Management meetings are in place to identify any O license compliance issues and implement necessary changes in working practice**
- **Revised recording of driver hours to comply with FTA guidelines**
- **Each vehicle has been assessed and license required to operate that vehicle identified**
- **The specifications of all new vehicles brought onto the fleet will be checked to ensure O license compliance**

Amendments made by Head of Human Resources

LEGAL RISK

52

Abuse of children **or adults at risk** by member of staff or volunteer

Associated Risk Officers: All Service Managers

Risk Rating

Likelihood

Rarely or never happened before

Impact

Serious disabling injury/ill health, financial loss between £500,000 and £2,000,000, significant disruption to service exceeding 1 week and/or adverse national media coverage

Priority

Low

Controls - Measures Currently in Place to Manage Risk

- Risk assessment conducted for all posts prior to advertisement to establish whether DBS (Disclosure and Barring Service) check required
- DBS (Disclosure and Barring Service) Checks Performed where relevant
- Self-assessment audit completed for Lancashire Safeguarding Board each year
- Contact made with police regarding outcome of Rotherham CSE (Child Sexual Exploitation)
- Training provided for all relevant staff October 2014
- Safeguarding briefing in place as part of induction and in Newsround
- HR adopted LADO (Local Authority Designated Officer) guidelines proposed by Lancs Safeguarding Board
- Procurement procedures include child and vulnerable adult protection
- Met with CSE (Child Sexual Exploitation) team at Police in April 2015 to develop better working
- All taxi drivers receiving training at College involving CSE (Child Sexual Exploitation) issues which is assisted by Licensing
- Children, Young People and Vulnerable Adult Protection Policy agreed at Cabinet July 08 and updated
- Relevant service heads asked to get staff to complete level 1 CAF (Common Assessment Framework) training online 22.9.08
- Leisure Trust confirm procedures in place
- Clause in SLA (Service Level Agreement) with 3rd sector organisations ensuring they comply with legal requirements of child protection

Appendix 2 – Summary Risk Registers

Generic

ID	Risk	Rating with controls
1	Failure to insure Council buildings for rebuild value in the event of fire or other incident (URN: 2006)	Medium
2	Failure to comply with CDM Regulations (URN: 2021)	Medium
3	Failure to ensure health and safety of employees and members of the public and comply with Health & Safety Legislation both in, around and outside the workplace. (URN: 2008)	Medium
4	Unexpected system failures impacting onto the delivery of services (URN: 2014)	Low
5	Failure to manage projects effectively and ensure contracts are VFM (URN: 2004)	Low
6	Risk of litigation arising from poor advice or work carried out by Officers or non-compliance with legislation (URN: 2007)	Low
7	Financial loss arising from historic claims for industrial injury (URN: 2020)	Low
8	Failure to ensure that personal data is kept securely in accordance with Data Protection Act and Freedom of Information Act 2000 (URN: 2017)	Low
9	Failing to recruit and retain suitably qualified staff (URN: 2001)	Low
10	Failure to deliver critical services due unavailability of a key building or facilities, lack of utilities, ICT failure or high levels of staff absenteeism resulting from infectious disease, flu pandemic or other serious incident (URN: 2013)	Low
11	Risk of poor procurement practice resulting in breach of procurement regulations, standing orders or inefficient use of resources. (URN: 45)	Low
12	Failure to monitor and ensure spending is within budgetary limitations (URN: 2003)	Low
13	Failure to conserve energy and reduce emissions thus resulting in excess costs to the Council and a negative impact on the environment (URN: 2016)	Low
14	Failure to adequately protect against IT abuse (e.g. virus infection, hacking, sabotage, accessing unsuitable material, unlicensed software, misuse of personal data, breach of law, theft, fraud) (URN: 2015)	Low

Operational

15	Risk of financial and reputational loss due to failure to agree new Cost Sharing agreement with LCC (URN: 123)	High
16	Errors in Creditor Payment processes resulting in e.g. duplicate payments, non-payment, overpayment, reduction in credit limits with firms (URN: 2)	Medium
17	Forward funding of projects. Risk of not drawing down Action Plan allocations due to lack of forward funding (URN: 97)	Medium
18	Inadequate Treasury Management Arrangements (URN: 7)	Medium
19	Liability for injury to health caused by asbestos in council owned buildings. (URN: 15)	Medium
20	Risks due to inadequate maintenance of car parks, bus shelters, HBC highways and lighting including Christmas Lights (URN: 59)	Medium
21	Empty dwellings at risk of vandalism / fire damage presenting a danger to third parties (URN: 120)	Medium
22	Risk of injury to the public due to the council's tree stock being unsafe, diseased or dying. (URN: 61)	Medium
23	Risk of flooding from watercourses as a result of lack of maintenance (URN: 58)	Medium
24	Risk of injury to the public due to the headstones and other memorials in the Borough's cemeteries being in an unsafe condition (URN: 125)	Medium
25	Failure to manage and control expenditure within private sector housing capital programme (URN: 82)	Medium
26	Loss of local land charges records e.g. fire (URN: 28)	Medium
27	Theft of works of art. (URN: 50)	Medium
28	Failure to comply with external funding regimes and programmes, notional loss and/or recovery of significant regeneration funding depending on specific arrangements. (URN: 81)	Medium
29	Impact on residents arising from flash flooding, sewer surcharge, infrastructure damage, rehousing, power outages etc as a result of adverse / extreme weather (URN: 113)	Low
30	Ignition of flammable liquids in vehicle workshop (URN: 56)	Low
31	Suspension of the Council's vehicle operator's licence (URN: 53)	Low
32	Breakdown of equipment or vehicles (URN: 72)	Low
33	Failure to maintain the Council's non-housing assets due to lack of funding. (URN: 37)	Low
34	Non-delivery of statutory requirements in connection with the Equality Act and age discrimination requirements (URN: 26)	Low
35	Risk of financial and reputational loss due to downturn in recycling markets (URN: 110)	Low
36	Risk of injury to the public, especially children and young people, due to the council's play areas and young people's facilities being in an unsafe condition. (URN: 62)	Low
37	Failure/breakdown of CCTV system (URN: 102)	Low
38	Adequately controlling temperatures of the Council's operational buildings to provide suitable working conditions for staff and prevent disruption to services (URN: 114)	Low
39	ICT systems failure affecting service provision due to loss of Academy / Anite / Paris (URN: 39)	Low
40	Failure to meet necessary legal requirements leading to claims being made (URN: 20)	Low
41	Errors in implementing CPO procedures relating to HMR programme or risk of successful challenge to CPO proposals at public enquiry (URN: 25)	Low
42	Failure to follow election procedures (URN: 19)	Low
43	Failure to generate forecast income from the Council's investment property (URN: 11)	Low
44	Loss of planning application and permission records through fire or flood (URN: 65)	Low

Operational

ID	Risk	Rating with controls
45	Market Hall loss of income due to low take up of market hall stalls (URN: 122)	Low
46	Cost implications of introducing Selective Landlord Licensing (URN: 121)	Low
47	HMR Programme residual CPO and Contractual Liabilities exceeding anticipated available funding (URN: 117)	Low
48	Failure to secure the development of the Clayton Triangle (URN: 92)	Low
49	Risk of claims arising from owners of houses following contracts for group repairs and home improvements supervised by Regeneration and Development Team (URN: 68)	Low
50	Risk of assault whilst collecting, counting and banking Market Rents (URN: 36)	Low
51	Liability for costs on appeal against unreasonable refusal of planning application (URN: 55)	Low
52	Risk of claims against the Council for unfair dismissal given the likelihood of staffing reductions through redundancy. (URN: 116)	Low
53	Abuse of children or adults at risk by member of staff or volunteer (URN: 52)	Low
54	Failure to meet statutory deadline for issue of Council Tax Bills (URN: 21)	Low
55	Failure to react to changes in Benefit Legislation (URN: 18)	Low
56	Errors in Cashiering i.e. posting monies to the wrong account (URN: 4)	Low
57	Failure to produce final accounts on time to appropriate legal & professional standards e.g. current Accounts & Audit Regulations, IFRS (International Financial Reporting Standards) (URN: 23)	Low
58	Errors in Debtors Administration e.g. Incorrect posting of payments (URN: 3)	Low
59	Failure to protect customer's personal banking information when making payments over the internet (URN: 41)	Low
60	Service or business needs not met due to failure of IT system, failure of network services or other reason (URN: 40)	Low
61	Pollution of canal or local environment resulting in suspension of waste transfer at CVMU/Willows Lane (URN: 77)	Low
62	Failure to complete Woodhook regeneration project leaving the council with property ownership liabilities for up to 60 empty dwellings (URN: 128)	Low
63	Failure to manage cremator operations in accordance with authorisation leading to excessive emissions (URN: 74)	Low
64	Theft of Mayoral Chains and car whilst attending official mayoral engagement with associated risk of assault on mayoral party. (URN: 127)	Low
65	Failure to complete audit plan and associated work to give sufficient assurance to External Audit in their Final Accounts Audit (URN: 1)	Low
66	Failure to achieve and statutory housing responsibilities in terms of homelessness and housing need (URN: 98)	Low
67	Risk of Damage to the Tiffany glass and paintings whilst moving/cleaning. (URN: 49)	Low
68	Unacceptable vehicle emissions (URN: 76)	Low
69	Failure to initiate prompt recovery action (URN: 5)	Low
70	Failure to meet contractual obligations under vehicle service level and contract hire agreements (URN: 67)	Low
71	Gallery and Market staff at risk of attack on attending out of hours call outs (URN: 64)	Low
72	Pollution or adverse affect on public health due to failure of refuse collection service (URN: 78)	Low
73	Loss of title deeds or contract documents e.g. fire (URN: 119)	Low
74	Theft or damage to vehicles and equipment (URN: 60)	Low
75	Failure to complete statutory returns e.g. VAT (URN: 6)	Low

Strategic

76	Substantial reduction in grant from Government (URN: 1027)	Medium
77	Loss of considerable amount of cash due to deposits within banking sector that are subject to major turbulence. (URN: 1025)	Medium
78	Warranted environmental / asbestos problems in land / properties following the 2006 LSVT (URN: 1018)	Medium
79	Failure to ensure Financial Integrity (URN: 1004)	Medium
80	Failure to address citizens needs in the event of a major incident, including civil disobedience, affecting residents or infrastructure of the Borough. (URN: 1022)	Low
81	Failure to safeguard and promote the welfare of children and vulnerable adults (URN: 1023)	Low
82	Failure to uphold high ethical standards of conduct and consequent reputational damage to the Council (URN: 1001)	Low
83	Failure to address unacceptable exposure from Strategic Partnerships & Joint Working (URN: 1006)	Low
84	Failure to follow correct procurement process (URN: 1015)	Low
85	Failure to deliver objectives set out in the Corporate Strategy (URN: 1026)	Low
86	That the Councils leisure service provider Leisure in Hyndburn cease trading (resulting in the Council becoming responsible for some of their liabilities, eg. Pension deficit) or that they fail to repay debts to the Council. (URN: 1030)	Low
87	Loss of income from unpaid invoices more than 6 months old impacting on General Fund revenue Balances. (URN: 1029)	Low
88	Financial liability arising from legal claim by Rossendale BC to recover losses incurred on Pennine Lancashire Empty Homes Programme as a result of Rossendale BCs sub-contractor, AAAW, going in to administration. (URN: 1032)	Low
89	Risk of Council acting unlawfully and failure to meet requirements of new and amended legislation (New legislation imposing significant new burdens will be dealt with as a separate risk if appropriate) (URN: 1014)	Low

Appendix 3 – Partnership Register

PARTNERSHIP	STATUS – MARCH 2016
LEAD OFFICER - David Welsby	
Globe Enterprises Ltd.	Current – established in 1995 in conjunction with Barnfield Contractors (UK) Ltd and two private sector partners with equal share holdings
Barnfield & Hyndburn Ltd.	Current – established in 1995 with 70% Barnfield Contractors (UK) Ltd share and 30% Hyndburn Borough Council
Barnfield & Hyndburn Partnership	Current – A partnership governed by the Partnership Act 1890 with Barnfield Contractors (UK) Ltd having a 70% share and Hyndburn Borough Council having 30% share.
Regenerate Pennine Lancashire	Current – a Local Authority owned company providing a shared economic development function between five authorities.
Pennine Lancashire Strategy Unit	Current – this is part of the Core Strategy for 2011 - 2026
LEAD OFFICER – Joe McIntyre	
Hyndburn Leisure Trust	Current – Provision of leisure services. Has enabled the council to significantly reduce the cost of leisure of provision in the borough whilst maintaining service levels. It has been agreed that the grant to the Leisure Trust will further reduce over the next few years and will eventually stop being paid when the Leisure Trust are financially self-sufficient.
Hyndburn Arts Trust	Current – established in 2010. Hyndburn Arts Trust was formed to operate the Oswaldtwistle Civic Theatre and provide a programme of arts and culture. The Arts Trust business plan aims to make the operation self-sufficient which over time will enable the council to reduce the level of grant paid to the trust.
LEAD HBC OFFICER - Jane Ellis	
Land Charges	Current – this is a contractual agreement for the shared service in respect of Land Charges between Hyndburn Borough Council and Pendle Borough Council. This has helped reduce the cost of the Land Charges Service.
LEAD HBC OFFICER - Steve Riley	
Grounds Maintenance SLA	Current – this is an SLA with LCC covering weed control, leaf sweeping, highway verge shrub, tree and hedge maintenance – Agreement in place up until end 2016. The agreement is expected to generate £47,000 of income in 2016/17.
Hyndburn Used Furniture Store (HUFS)	Provides a bulky household waste collections (Furniture, white goods etc) that is free to residents. Where appropriate collected items are recycled or reused.
Lancashire Waste Partnership	Current – this is a long standing partnership formed in 2001 with District and County authorities within Lancashire - This partnership is up for review in March 2018
LEAD HBC OFFICER - Mike Walker	
Community Safety Partnership	Ongoing – involves statutory partners (Lancashire Constabulary, National Probation Service, Lancs and Cumbria Community Rehabilitation Company, NHS East Lancs CCG, LCC and Lancs Fire and Rescue Service) and non-statutory partners (HARV, Hyndburn Leisure, Older People's Forum, YNOT etc)
Hyndburn, Ribble Valley and Rossendale Children's Partnership Board	Previously the Hyndburn Children's Trust which has been restructured to cover the boroughs of Hyndburn, Ribble Valley and Rossendale. In addition to the 3 district councils partners include LCC, Lancashire Constabulary, National Probation Service, Lancs Care Foundation Trust, Reps from local Schools and Nurseries etc

UNCLASSIFIED

PARTNERSHIP	STATUS – MARCH 2016
Shared CCTV	Current – this is a shared service between Hyndburn Borough Council and Blackburn with Darwen Council that has reduced cost of service delivery. Preston, Burnley and Pendle Councils will be joining the partnership in the coming months which will provide further reductions in cost due to economies of scale.
LEAD HBC OFFICER – Ian Marfleet	
Hyndburn Community & Voluntary Resource Centre, Accrington	2004 Hyndburn Community and Voluntary Resource Ltd Third sector Enterprise Centre Former Church school. Refurbished with European and National Funding. The building offers office space aimed at third sector organisations and some event/workshop space. The lease was renewed in 2015.
Mercer House, Clayton le Moors	2011 Mercer 1842 Ltd Unused Grade II listed building. Now managed by a local community organisation who host a range of events, meetings, workshops and similar. Office space for local community organisations also included. Community Centre
Arthur Wilson Centre, Great Harwood	2014 Mercer 1842 Ltd Former community building run for and by local elderly residents. The building was largely unused. The rooms are now fully used by a wide variety of users. Community Centre
Churchfield House, Great Harwood	2015 Churchfield House Ltd Unused Grade II listed building. Now managed by a local community organisation who host a range of events, meetings, workshops and similar. Office space is also proposed, but not yet included. Community Centre
The Civic, Oswaldtwistle	2015 Hyndburn Arts Ltd Community theatre previously run by the Council. Leased to a local community to improve the offer and increase the audience numbers. Community Theatre
Elmfield Hall, Accrington	2015 Community Solutions North West Ltd Underused community building. Lease and heavily restored by CSNW as their headquarters. The building also incorporates community meeting space. Headquarters for CSNW
Hippings Vale, Oswaldtwistle	2016 Hyndburn Arts Ltd Underused community building. Leased to HAL with the aim of increasing the range of use and number of users. Community Centre
LEAD HBC OFFICER - Derek Hartigan	
Pest Control	Current – SLA with Burnley now formalised and informal agreement with Rossendale to provide service 2 days per week. Pest control services are also a rolling agreement with LCC to provide on an ad hoc basis. These agreements generated approximately £50,000 of income in 2015/16.

UNCLASSIFIED

LEAD HBC OFFICER –Tony Akrigg	
Dog Kennelling Contract	Current – Contract between HBC, Ribble Valley Borough Council, Pendle Borough Council and Rossendale Borough Council.
Night Time Nuisance	Current – a shared service with four neighbouring authorities which was formed in 2005. The partnership enables costs of staffing to be reduced because the service is a staffed on a rota basis across each of the councils.
Emergency Planning	Partnership that shares best practice and resources in respect of emergency planning.
LEAD HBC OFFICER –Karen Hall	
Hyndburn Homewise	Allow Hyndburn Homewise to use a stall in Accrington Market to display mobility aids etc.
Veterans Association UK	Provide VAUK with a unit on the balcony of Accrington Market at peppercorn rent to provide a veterans drop in advice service – agreement will be reviewed
Hyndburn Heritage Museum	Provide the Museum to use a stall in Accrington Market at peppercorn rent to display museum items and promote the main museum site.
LEAD HBC OFFICER - Mark Hoyle	
Pennine Lancashire Museum Consortium	Current – this is a collaboration of five member authorities with Burnley Borough Council being the accountable body for monies received from the Arts Council England. The partners share best practice, prepare joint funding bids and produce combined marketing materials.
LEAD HBC OFFICER – Scott Gardner	
Internet Provision	Current – This is a contractual agreement for the provision of internet bandwidth from Lancashire County Council that provided cost savings.
LEAD HBC OFFICER – Craig Haraben	
Hyndburn Green Spaces Forum	Reg Charity, collective voice for open space Green Space partner
Friends of Rhyddings Park	Reg Charity, collective voice for residents Green space voice for Oswaldtwistle
Friends of Memorial Park	collective voice for residents Memorial Park users group
Friends of Mercer Park	collective voice for residents Mercer Park user group
Huncoat Community Forum	collective voice for residents Active residents of Huncoat
Friends of Peel Park & Arden Hall	collective voice for residents Peel Park & Arden Hall User group
Friends of Milnshaw Park	collective voice for residents Milnshaw Park supporters group
Rishton Prospects Panel	collective voice for residents Cutwood park and Rishton residents
Baxenden Community Forum	collective voice for residents Haworth Park and Baxenden Residents
Bullough Park Residents Association	collective voice for residents Bullough Park Users group
Prospects Foundation	Biodiversity champions reg charity

Partnerships that under development

LEAD HBC OFFICER – Ian Marfleet	
Bank Mill House, Great Harwood	Interim management group Underused community hall managed by a group of local residents. It is hoped that an incorporated community group will take over the full management responsibility by lease arrangement. Community Hall
Clayton Civic Centre, Clayton le Moors	Mercer 1842 Ltd Library, Children's Centre, Community Centre. Complex and challenging building management issues, the Council is seeking to resolve these by bringing in Mercer 1842. Community Centre

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Agenda Item 4.

REPORT TO:	Audit Committee		
DATE:	27 June 2016		
PORTFOLIO:	Cllr Gareth Molineux - Resources		
REPORT AUTHOR:	Mark Beard – Head of Audit & Investigations		
TITLE OF REPORT:	ANNUAL INTERNAL AUDIT REPORT & AUDIT OPINION 2015/16		
EXEMPT REPORT (Local Government Act 1972, Schedule 12A)	No	Not applicable	
KEY DECISION:	No	If yes, date of publication:	

1. Purpose of Report

- 1.1 To inform and update Audit Committee on the Annual Internal Audit Report and Audit Opinion for 2015/16 and to give details on the performance of the Internal Audit Team and final outturn position for 2015/16.

2. Recommendations

- 2.1 I recommend that Audit Committee:
- notes the content of this report for informational purposes.

3. Reasons for Recommendations and Background

- 3.1 The production of an Annual Internal Audit Report & Audit Opinion is a requirement of the Public Sector Internal Audit Standards (PSIAS) which are jointly published by the Chartered Institute of Internal Auditors (CIIA) and the Chartered Institute of Public Finance and Accountancy (CIPFA). The Annual Internal Audit Report & Audit Opinion is also an aid to those charged with governance in their consideration of the Annual Governance Statement in support of the Council's Financial Statements. The report also enables those charged with governance to gain an independent viewpoint on the Council's Control Environment.
- 3.2 The Annual Internal Audit Report & Audit Opinion is a supporting piece of evidence and does not replace or prevent the Council's requirement to produce the Annual Governance Statement.

3.3 A copy of the Annual Internal Audit Report & Audit Opinion 2015/16 is attached as an appendix to this report.

4. Alternative Options considered and Reasons for Rejection

4.1 There are no alternative options as the report is for informational purposes only and the Head of Audit & Investigations must produce an Annual Internal Audit Report & Audit Opinion to be in conformance with the PSIAS.

5. Consultations

5.1 No consultations required as this report is based on data and information held by the Head of Audit & Investigations reflecting the actual work carried out in 2015/16.

6. Implications

Financial implications (including any future financial commitments for the Council)	There are no financial implications arising from this report at this stage as it is purely an information / end of year position statement based on actual work completed in 2015/16.
Legal and human rights implications	There are legal or human rights implications arising from this report.
Assessment of risk	There are no direct risks from this report as it is reporting on actual completed work in 2015/16.
Equality and diversity implications <i>A Customer First Analysis should be completed in relation to policy decisions and should be attached as an appendix to the report.</i>	This report is produced for information awareness to update Management Team of the issues surrounding the Annual Internal Audit Report & Audit Opinion together with the Internal Audit performance and outturn position. This brings together details of the work carried out during 2015/16, which was risk based and a Customer First Analysis cannot be applied in the context of this report.

7. Local Government (Access to Information) Act 1985: List of Background Papers

7.1 No background papers were necessary for the preparation of this report.

8. Freedom of Information

- 8.1 The report does not contain exempt information under the Local Government Act 1972, Schedule 12A and all information can be disclosed under the Freedom of Information Act 2000.

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HYNDBURN

The place to be
an excellent council

Annual Internal Audit Report & Audit Opinion 2015/16

EXECUTIVE SUMMARY

The Head of Audit & Investigations is pleased to report that good levels of internal control were found to be in place and no significant areas of concern were found that could impact on the Council's Financial Statements. This is based on the work of the Internal Audit Team during 2015/16.

The key issues arising from this report are:-

- The Head of Audit & Investigations is able to issue a positive opinion on the systems of Internal Control based on the work carried out in 2015/16 as detailed below.
- Internal Audit did not identify any issues in 2015/16 during the course of their audit work that would have a material effect on the Council's Financial Statements.
- Internal Audit achieved audit plan coverage of 101.69% in 2015/16. This exceeds the annual target of 98%. A contributory factor in this was covering additional work from the reserve list in addition to that within the Audit Plan.
- Production and publication of this report is a requirement of the Public Sector Internal Audit Standards. This report satisfies the requirements for those charged with governance and forms a supplementary piece of evidence to the Annual Governance Statement.

AUDIT OPINION 2015/16

All of the work undertaken by Internal Audit during the financial year 2015/16 was in conformance with the Public Sector Internal Audit Standards. The average opinion score in 2015/16 was 1.52 as opposed to 1.18 in 2014/15. This is based on a scale of 1 to 4 where 1 is the highest level of assurance and 4 is the lowest level of assurance.

Therefore the Audit Opinion for 2015/16 is:-

Substantial assurance: The work undertaken showed there is a generally sound system of internal control designed to meet the service objectives, and controls are generally being applied consistently. However some weaknesses in the design and / or inconsistent application of controls put the achievement of particular objectives at risk.

This statement is intended to provide reasonable assurance. There is an on-going process for identifying, evaluating and managing key risks. These risks are reflected in the Internal

Audit Plan and are subject to their own reporting process during the course of the year which sits outside the Internal Audit role.

Opinion Caveat – Those charged with Governance must remember that no system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance.

ANNUAL INTERNAL AUDIT REPORT & AUDIT OPINION

PURPOSE & BOUNDARIES

Management is responsible for the System of Internal Control and must set in place policies and procedures to ensure that the system is functioning correctly. Internal Audit review, appraise and report on the efficiency, effectiveness and economy of financial and other management controls. This report is the culmination of the work during 2015/16 and seeks to:-

- Provide an opinion on the adequacy of the control environment
- Comment on the nature and extent of any significant risk
- Report the incidence of significant control failings or weaknesses

Requirement for Internal Audit

Various statutes require a continuous internal audit of the Authority's systems and internal control. This role is complemented by initiatives aimed at promoting effective corporate governance, risk management, anti-fraud & corruption including bribery, anti-money laundering & proceeds of crime in addition to maintaining probity and value for money.

The Public Sector Internal Audit Standards (PSIAS) set out a detailed framework that Internal Audit must conform to. These cover all aspects of Internal Audit from behaviours to the actual way in which audit work should be conducted.

In addition to the PSIAS both the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (CIIA) produce additional guidance and publications surrounding internal audit, control, governance and Audit Committees etc. One such publication is "The Role of the Head of Internal Audit in Public Service Organisation" published in 2010. This sets out the standards that are expected not only of the Head of Internal Audit but also of the Authority as a whole. This publication compliments the PSIAS and what they aim to achieve.

The guidance accompanying the Accounts and Audit Regulations 2015 also detail the need for sound systems of internal control and set out the basis for the necessity of Internal Audit.

Equality & Diversity

Internal Audit remains committed to the Council's objectives on Equality and Diversity. This is achieved through the way the team is managed, the way staff are trained and by the way processes are put in place to ensure members of the team behave appropriately in their work with staff and management at all levels together with elected Members,

members of the public and other external organisations. This again links into the requirements of the PSIAS.

Audit & Investigations teams have received both Equality & Diversity Training in addition to other information supplied e.g. Newsround briefings. This area is also a standing agenda item at team meetings.

Declaration of Interests

Internal Audit must avoid any conflict of interest that could impede any of the audit work carried out or cast doubt over the independence or integrity of the auditor carrying out the assignment. This links in to the 'Due Professional Care & Ethics' elements of the PSIAS.

All members of the audit team are aware that they must declare any interests and sign an annual statement which also states they would inform the Head of Audit & Investigations if any issue became apparent during the year.

The Head of Audit & Investigations can report that no member of the Audit Team had any issues that could have impacted on the integrity, professionalism or quality of the work during 2015/16.

THANKYOU

The Head of Audit & Investigations and Internal Audit Team would like to express their thanks to Management and all areas of the Council where work was undertaken during 2015/16 for the help afforded to the Audit Team during the course of their work.

REVIEW OF INTERNAL CONTROL

How Internal Control is Reviewed

- 1.1 During 2015/16 the Authority's risk registers have been continually updated. These form a key factor of Internal Audit's operational plan each financial year. The review process draws on key indicators of risks to the organisation with the aim of ensuring audit resources are allocated to the areas with the highest risk.
- 1.2 Internal Audit uses a 9 point risk analysis matrix for determining the levels of risk as part of the annual audit planning process. Factors considered are:-
- Audit Area covered by risk(s) in the Risk Registers
 - Have system changes taken place? E.g. to personnel or processes
 - Has the service area been subject to cuts / job losses / restructure?
 - Does External Audit require coverage?
 - Is the Audit b/fwd or deleted from the current audit plan?
 - Does the Audit Area directly affect the Council's financial position?
 - Is it a Council / Management Team / Manager priority?
 - When was the last audit carried out?
 - What is the monetary value / income of the area?
- 1.3 The audit plan includes a 10% contingency provision. Contingency days are utilised in response to unforeseen work demands that arise. In the event that there are contingency days that have not been required, these are used to enable additional audit areas to be covered within the plan as per the risk scoring matrix.
- 1.4 The risk analysis and scoring part of the audit planning process results in a comprehensive range of audit assignments being undertaken during the financial year. These audits support the overall opinion on the control environment. Examples include:-
- Systems based reviews of fundamental financial systems that could have a material impact on the Council's financial statements e.g. Asset Management, Cash Receipting & Banking, Treasury Management
 - Establishment audits e.g. Parks & Open Spaces
 - Systems based reviews of departmental systems e.g. Debt Recovery Arrangements, Insurance Arrangements, Planning Fees, Procurement Arrangements
 - External Grant Funding
 - ICT audits e.g. Network Controls, Software Maintenance Contracts
 - Contract audit
 - Fraud Strategy Work

- Responsive fraud and irregularity investigations

1.5 Audit work is risk based and the risk registers are cross referenced to the audit plan. Any risks identified within the risk registers that cannot be linked to the audit plan are added to the audit plan during the annual planning process. There were no new risk areas in the risk registers that were not already in the audit plan for 2015/16. Any significant risks are acted upon during the financial year as opposed to waiting until the annual audit planning process which takes place towards the end of each financial year.

Accounts and Audit Regulations

1.6 The Accounts and Audit Regulations 2015 set out clear instructions that Councils must follow. Parts of the regulations detail financial management and the need for Internal Audit.

1.7 Financial management is covered within part 2 of the 2015 regulations and details what the Authority must have in place regarding:-

- Responsibility for Internal Control
- Accounting records and control systems
- Internal Audit
- Review of Internal Control System

1.8 For clarity the specific regulations relating to the above areas are detailed in TABLE 1 below. These detail the key parts of regulations 3 to 6.

Regulation	Requirement
3	A relevant authority must ensure that it has a sound system of internal control which:- (a) Facilitates the effective exercise of its functions and the achievement of its aims and objectives; (b) Ensures that the financial and operational management of the authority is effective; and (c) Includes effective arrangements for the management of risk
4 (4)	The financial control systems determines in accordance with paragraph (1) (b) must include: (a) Measures – (i) to ensure the financial transactions of the authority are recorded as soon as, and as accurately as, reasonable practicable; (ii) to enable the prevention and detection of inaccuracies and fraud, and the reconstitution of any lost record; and (iii) to ensure that risk is appropriately managed; (b) identification of the duties of officers with financial transactions and division of responsibilities of those officers.
5 (1)	A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards

	or guidance.
5 (2)	Any officer or member of a relevant authority must, if required to do so for the purpose of the internal audit – (a) make available such documents and records; and (b) Supply such information and explanations; As are considered necessary by those conducting the internal audit.
5 (3)	In this regulation “documents and records” includes information recorded in an electronic form.
6 (1)	A relevant authority must, each financial year – (a) Conduct a review of the effectiveness of the system of internal control required by regulation 3; and (b) Prepare an annual governance statement

Annual Governance Statement

- 1.9 CIPFA guidance states that an Annual Governance Statement (AGS) should be produced to accompany the Council’s Financial Statements.
- 1.10 The AGS is made up of numerous evidence sources from across the Council as a whole that collectively demonstrate why the Council believes it has good governance in place. The Head of Audit & Investigations supplies 4 pieces of evidence each year to show Internal Audit’s contribution to the Council’s governance processes. This report is one of those 4 pieces of evidence.
- 1.11 It must be highlighted that this Annual Internal Audit Report & Audit Opinion is not the AGS and cannot be used to substitute it.

Risk Management

- 1.12 The Council has a well-established risk management process which is monitored and updated on a regular basis and reported to both the Council’s Corporate Management Team and the Audit Committee.
- 1.13 There are 3 risk registers; Strategic, Operational and Generic.
- 1.14 Risk owners and management are proactive in monitoring the tables and ensuring that obsolete risks are deleted and new emerging risks are added in addition to updating existing risks.
- 1.15 The risk management process is subject to auditing by Internal Audit, however this is determined by the audit planning process and specifically the risk scoring matrix.
- 1.16 The Head of Audit & Investigations can confirm that the risk management provides regularly updated risk information to both Corporate Management Team and Elected Members.

Fraud

1.17 Whilst it is not the primary role of Internal Audit to detect fraud, it does have a role in providing an independent assurance on the effectiveness of the processes put in place by management to manage the risk of fraud. Internal Audit carry out additional fraud related work at times, although this must not be prejudicial to the primary role of Internal Audit. Examples of the activities that may be carried out include:-

- Investigation work surrounding fraud cases
- Responding to whistle-blowers
- Considering fraud in every audit
- Making recommendations to improve processes
- Review fraud prevention controls and detection processes put in place by management

1.18 Internal audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected.

SIGNIFICANT ISSUES ARISING 2015/16

- 2.1 Each audit report issued is given an audit opinion based on the issues identified and reported by Internal Audit. Table 2 below shows the opinions and how many each was issued in 2015/16:-

TABLE 2

AUDIT REPORT ASSURANCE OPINIONS	Number issued in 2015/16
<p>Comprehensive assurance: the work carried out within this audit assignment is in conformance with the Public Sector Internal Audit Standards. The work undertaken showed a sound system of internal control which is designed to meet the service objectives, in addition the work carried out showed controls are consistently being applied</p>	14
<p>Substantial assurance: the work carried out within this audit assignment is in conformance with the Public Sector Internal Audit Standards. The work undertaken showed there is a generally sound system of internal control designed to meet the service objectives, and controls are generally being applied consistently. However some weaknesses in the design and / or inconsistent application of controls put the achievement of particular objectives at risk</p>	12
<p>Limited assurance: the work carried out within this audit assignment is in conformance with the Public Sector Internal Audit Standards. The work undertaken showed weaknesses in the design and / or inconsistent application of controls that put the achievement of the service objectives at risk</p>	2
<p>No assurance: the work carried out within this audit assignment is in conformance with the Public Sector Internal Audit Standards. The work undertaken showed weaknesses in controls and / or consistent non-compliance with controls that could result / has resulted in failure to achieve the service objectives</p>	0

- 2.3 This section of the report also details any audit assignments that resulted in 'Limited Assurance' or 'No Assurance' opinions being given.
- 2.4 In 2015/16 two audit areas were given opinions of 'Limited Assurance' and therefore must be reported within this section of the Annual Internal Audit Report & Opinion.

- 2.5 The two audit assignments were Business Continuity and Pest Control. Whilst both areas were given opinions of Limited Assurance, Internal Audit does not believe that this has any material effects on the Council's Financial Statements.
- 2.6 The Business Continuity audit found one Service Area that did not have a Business Continuity Plan at all. All 12 Heads of Service were asked to update their plans to ensure it was correct and up to date but the audit found only 6 had done this.
- 2.7 The level of assurance within this area remains limited as it still appears not all of these have been updated.
- 2.8 The Pest Control audit found some pest control contracts that had not been charged as per the fees on the website. A new member of staff would not be aware of the charge rates currently used and there is a risk that income may be lost due to inaccurate charges made. It was agreed to document the charging methods for pest control contracts that are not charged as per the fees advertised on the website would be clearly documented.
- 2.9 Service Level agreements were not finalised with two Councils that work is carried out for and the rates charged to a specific Council should be reviewed and documented. This will ensure that all invoices raised have the associated back up documentation to support the charges.
- 2.10 The contract for commercial services had been partially reviewed by Legal Services and this should be finalised between the Pest Control Manager and the Legal Services Team. This will ensure all terms and conditions of contract are correctly recorded prior to the issue of a contract.
- 2.11 Whilst the controls at the time of the audit meant that the opinion for Pest Control was 'Limited Assurance', the meetings and discussions that have taken place since the audit and processes put in place should improve the level of control within this area.

AUDIT PERFORMANCE

Assessment of Internal Audit

- 3.1 Internal Audit works closely with the Council's External Auditors, Grant Thornton. External Audit utilise work carried out by Internal Audit, particularly surrounding the fundamental controls of key systems within the Council to give them added assurance those key systems and processes are working effectively. This then enables External Audit to gain additional reliance that the data and information produced by these systems is reliable. Such assurances contribute to the conclusions made by External Audit on the Council's financial statements.
- 3.2 Regular liaison meetings take place between Internal and External Audit which are also an opportunity to review the current position on work and issues facing the Council. External Audit has specific interest on any issue that could impact on the Council's Financial Statements.
- 3.3 The Head of Audit & Investigations is part of the Lancashire Districts' Councils Audit Group. This allows all the Lancashire Heads of Audit to discuss issues and raise matters that could have future impacts. The group meets quarterly but the network is active all year as group members will highlight any issue they become aware of with the rest of the group via email between the quarterly meetings.
- 3.4 Internal Audit must comply with the PSIAS and as part of this process the Head of Audit & Investigations has carried out a self-assessment of the Audit function against the Standards during 2015/16. The Head of Audit & Investigations has also produced a Quality Assurance & Improvement Programme (QAIP) with the self-assessment. This details how those areas partially or not currently compliant will progress to become compliant. Whilst both were reviewed for 2015/16, these are being presented to Audit Committee at their June 2016 meeting. The QAIP is subject to on-going monitoring and revision.
- 3.5 The PSIAS also state that an external assessment must be carried out of the audit function and its conformance to the Standards. This has not yet taken place and the Standards state that a review must take place within 5 years i.e. by 31st March 2018. Following discussions by the Lancashire Heads of Audit 10 Councils have agreed to work together on providing the external assessment through a Peer Review process. Significant progress has been achieved during 2015/16 and both methodology and draft timetable have been produced which will be ratified by the Heads of Audit of the Authorities taking part in May 2016. Work will then continue to prepare for the first peer reviews which will commence in the Autumn of 2016. Under this draft timetable Hyndburn would not undergo its Peer Review until 2017.

- 3.6 Whilst the PSIAS are the primary standards by which Internal Audit must both conform and be measured by, there are other publications that contain guidance which link into the PSIAS. The 2011 CIPFA publication “The Role of the Head of Internal Audit in Public Service Organisations” is one such example. The results of a self-assessment on the position for Hyndburn have previously been communicated to Audit Committee. The Head of Audit & Investigations also keeps this under review. As at the end of 2015/16, the Head of Audit & Investigations can confirm that the Council fully complies with 87 (92.55%) of the 94 criteria and partially complies with 6 (6.38%). The remaining item is not applicable to Hyndburn.

Review of the System of Internal Control and Effectiveness of Internal Audit

- 3.7 The Accounts and Audit Regulations 2015, regulation 5 (1) states that a relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes taking into account public sector internal audit standards or guidance. Regulation 6 (1) (a) states “A relevant authority must, each financial year, conduct a review of the effectiveness of the system of internal control required by regulation 3.
- 3.8 The Internal Audit process is a key part of the annual review of the effectiveness of the system of Internal Control and the Annual Audit Opinion on page 2 of this report reflects that the majority of controls reviewed in 2015/16 were operating effectively.
- 3.9 As already mentioned in paragraph 3.4, a self-assessment of the PSIAS was conducted in 2015/16. The PSIAS checklist considers 332 individual tasks and areas that Internal Audit must comply with. The self-assessment produced the same results as 2014/15. It highlighted that 19 of these were not applicable to Internal Audit at Hyndburn and of the remaining 313, the Internal Audit Team is 96.49% (302) compliant with a further 1.91% (6) being partially compliant and 1.60% (5) being non-compliant. With the areas deemed not applicable included overall the team is 90.96% compliant. Compliance will continue to be monitored as part of the QAIP and through an external assessment which is due to take place at a future date to be confirmed.

Quality Assurance & Improvement Programme

- 3.10 As part of the on-going monitoring and assessment of conformance with the PSIAS the Head of Audit & Investigations has a QAIP in place. The QAIP details the steps that are being taken to move the areas of partial or non-compliance to full compliance. The QAIP will be subject to on-going review and will be periodically reported back to Audit Committee so that they can monitor the progress being made.
- 3.11 In the event that any area within the PSIAS changed from full compliance to partial or non-compliance this would then be included in the QAIP detailing what steps will

be taken to ultimately make that area fully compliant again. Therefore the QAIP is an evolving document that is subject to change and updates to reflect the actual position with the Council's conformance against the PSIAS.

Satisfaction & Quality Questionnaire (S&QQ)

- 3.12 Assessment of the ongoing performance, standards and seeking improvement is referred to within the PSIAS and is an area that the Head of Audit & Investigations has had processes in place for many years.
- 3.13 The S&QQ asks for the auditee's opinion on 11 questions with each one ranging from strongly agree to strongly disagree. The 12th question is a free-form text box allowing comments to be made on whether there is anything that could improve the service and the impact on their service area.
- 3.14 TABLE 3 below details the S&QQ results for 2015/16 and includes the comparative results for 2014/15 and 2013/14.

TABLE 3

	Strongly Agree	Agree	Unsure	Disagree	Strongly Disagree
1) The objectives of the audit were clearly communicated to me	72.73%	27.27%	0	0	0
2014/15 Comparison	56.3%	31.3%	6.2%	6.2%	0
2013/14 Comparison	45%	50%	5%	0	0
2) The auditor kept you fully informed at all stages of the audit	77.27%	18.18%	4.55%	0	0
2014/15 Comparison	50%	37.6%	0	6.2%	0
2013/14 Comparison	35%	65%	0	0	0
3) Your concerns and / or issues were adequately considered during the process	86.36%	13.64%	0	0	0
2014/15 Comparison	56.2%	43.8%	0	0	0
2013/14 Comparison	40%	55%	5%	0	0
4) The audit report covered the agreed objectives and was clear and provided adequate information regarding the audit review	83.36%	9.09%	4.55%	0	0
2014/15 Comparison	50%	43.8%	0	6.2%	0
2013/14 Comparison	40%	50%	5%	0	0
5) The Auditors were courteous and professional in their dealings with you and your colleagues	90.91%	9.09%	0	0	0
2014/15 Comparison	75%	25%	0	0	0
2013/14 Comparison	65%	35%	0	0	0
6) The auditors attended arranged appointments and meetings punctually	90.91%	9.09%	0	0	0
2014/15 Comparison	68.8%	25%	6.2%	0	0
2013/14 Comparison	65%	35%	0	0	0
7) The auditors did not significantly	86.36%	13.64%	0	0	0

disrupt your service area / function during the audit review					
2014/15 Comparison	62.4%	37.6%	0	0	0
2013/14 Comparison	55%	40%	0	0	0
8) The time span from the start of the audit to the issue of the final audit report was reasonable	86.36%	9.09%	0	4.55%	0
2014/15 Comparison	43.8%	50%	0	0	6.2%
2013/14 Comparison	35%	65%	0	0	0
9) The auditor's conclusions and audit opinion were logical and well documented in the final report	81.81%	9.09%	4.55%	4.55%	0
2014/15 Comparison	50%	43.8%	0	6.2%	0
2013/14 Comparison	35%	60%	5%	0	0
10) The audit review has benefited your area in some way (even if no recommendations / actions agreed, it should still provide management with the necessary assurances)	59.09%	27.27%	4.55%	9.09%	0
2014/15 Comparison	43.8%	43.8%	0	6.2%	6.2%
2013/14 Comparison	25%	70%	5%	0	0
11) The recommendations made were constructive and reasonable	72.73%	13.64%	0	4.55%	0
2014/15 Comparison	37.6%	43.8%	0	0	0
2013/14 Comparison	20%	65%	0	0	0

- 3.15 There were 22 completed questionnaires and this equates to 242 potential responses as there are 11 questions on the form. A total of 240 responses were given as 2 people did not feel able to answer question 11.
- 3.16 Of the 240 responses given, 196 (81.67%) were 'strongly agree' and 35 (14.58%) were 'agree'. A further 4 responses (1.67%) were given as 'unsure' and 5 responses (2.08%) were given as 'disagree'. The Head of Audit & Investigations is able to state that there is an overall strong positive perception of the Team and its work based on these responses. The combined strongly agree / agree total has 96.25% of views given overall.

Internal Audit Performance

- 3.17 It is good practice to monitor key performance measures. These can support the PSIAS but are not required for any form of national or mandatory collation. It does also enable the Head of Audit & Investigations together with Management and those charged with Governance to compare year on year performance.
- 3.18 The performance parameters recorded are similar to those maintained by the majority of Audit Teams in Lancashire and the parameters themselves were originally agreed with External Audit.

3.19 TABLE 4 below details performance for 2015/16 together with the 2 most recent financial years as a comparison, although older data is held by the Head of Audit & Investigations.

TABLE 4

Performance Measure	2013/14	2014/15	2015/16
No. of Audit Assignments completed compared to those planned in the audit plan	24	22	29
Number of Audit Reports Issued	24	22	29
Percentage of Audits completed within budget time allocation	87.50%	87.50%	96.55%
Number of Audit Recommendations made	20	14	32
Percentage of Audit Recommendations agreed for implementation by Management	100%	100%	100%
Number of Satisfaction & Quality Questionnaires Issued	21	16	26
Number of Satisfaction & Quality Questionnaires Received	20	16	22
Percentage of clients satisfied with the service provided based on the questionnaires returned	100%	100%	100%

3.20 The number of completed audit assignments increased from 22 to 29, a 31.82% increase on 2014/15. The number of recommendations significantly increased in 2015/16 and 100% were agreed by Management. The percentage of audit assignments completed within the budgeted time allocated increased and only 1 audit assignment over-ran. However, the number of satisfaction & quality questionnaires returned fell to 84.62%.

3.21 Accountability for the response to Internal Audit's advice and recommendations lies with Management who either accept and implement the advice or recommendations or accept the risks associated with not taking action.

Follow up Work

3.22 Once recommendations become actions agreed with Management in the relevant audit area this does not signify the end of audit involvement until the next time the area is audited.

3.23 Internal Audit will revisit the actions agreed at a defined future date, usually around 6 months, to re-examine whether the actions agreed have been implemented as agreed. Internal Audit refer to this action as a 'Follow Up'.

3.24 Progress on follow ups is reported to Audit Committee on quarterly basis. The Audit Committee can request full explanation from Management on areas that are not implemented.

3.25 During 2015/16 Internal Audit carried out follow up work on 10 audit areas with a total of 16 actions agreed. Follow up work revealed that 12 had been fully implemented, 2 had been partially implemented and work was continuing, the remaining 2 had not been implemented. Of the 2 that had not been implemented one was due to a lack to new regulations coming in to force and the other was pending the development of a new system which could, if implemented, supersede the action agreed.

Internal Audit Team – Staff Turnover

3.26 The level of staffing within the Audit Team remained constant throughout 2015/16 at 3.0 FTE being available.

3.27 The Audit Team did not experience any sickness and therefore did not lose any time to this.

Use of Audit Time

3.29 TABLE 5 below shows an analysis of Internal Audit time during 2015/16 with the comparative figures for the previous 2 financial years. This is based on actual time spent excluding both statutory and annual leave together with any other absences such as sickness.

TABLE 5

Analysis of Audit Time	2013/14	2014/15	2015/16
Audit Days	77.3%	78.5%	85.0%
Training	5.0%	3.4%	3.5%
Management	13.2%	14.2%	7.6%
Other Non-Audit Time	4.5%	3.9%	3.9%

3.30 The 2015/16 figures show a marked increase in the amount of time devoted to audit with a very slight increase in the amount of time spent on training and other non-audit time remaining static. However, the greatest decrease is in Management time which almost halved during 2015/16. This reflects the stability within the team during the year.

ANALYSIS OF AUDIT ACTIVITY DURING 2015/16

- 4.1 TABLE 6 below details the work carried out by Internal Audit during 2015/16 and is based on actual time recorded against the original approved time allocated within the Audit Plan for 2015/16.
- 4.2 A total of 568.45 days were delivered against 559 planned audit days. There were 73.78 days recorded in non-audit work as opposed to 69 days allocated in the audit plan. Non-audit work includes management meetings, personal development reviews, regional audit groups, team meetings, timesheets etc. There were 138.5 days recorded in absences as opposed to the 158 days allocated in the audit plan. Absences cover statutory leave, annual leave, sickness etc. All absence in 2015/16 was either annual leave or statutory leave for bank holidays.
- 4.3 TABLE 6 does not include the areas within the audit plan where no time was recorded and therefore the table does not reflect the whole audit plan, only the areas where time was recorded during 2015/16.

TABLE 6

Core Systems	Plan Days	Actual Days	Comments
Systems Based Reviews			
Asset Management	15	13.60	Audit Completed
Cash Receipting	20	19.17	Audit Completed
Payroll		13.12	Audit Completed – 2014/15 W.I.P
Treasury Management	12	11.09	Audit Completed
Systems Queries / Work			
Creditor Payments		0.10	Audit Query
General Ledger		0.14	Audit Query
Payroll		0.06	Audit Query
TOTAL for Core Systems	47	57.28	Utilised 121.87% of Allocated Audit Days

Non-Core Systems	Plan Days	Actual Days	Comments
Building Control Fees		0.14	Audit Query
Car Leasing / Loans		1.46	Audit Queries
Charities		5.30	Audit Work Completed
Debt Recovery Arrangements	15	18.27	Audit Completed
Drivers Policy Handbook		0.30	Audit Query
Electoral Registration / Elections		0.44	Audit Query
Fees & Charges		0.14	Audit Query
Freedom of Information		4.31	Audit Completed
Health & Safety		5.25	Audit Commenced – W.I.P.
Insurance Arrangements	13	10.65	Audit Completed
Land Charges & Registry VDD		8.74	Audit Completed.
Licences - Taxi		0.07	Audit Query
Members Allowances		8.87	Audit Completed.

Officers Imprests & Subsistence		3.01	Audit Work Completed
Planning Fees	15	12.63	Audit Completed
Procurement Arrangements	15	13.71	Audit Completed.
TOTAL for Non-Core Systems	58	93.29	Utilised 160.84% of Allocated Audit Days

Establishments	Plan Days	Actual Days	Comments
Cemeteries & Crematorium	15	10.82	Audit Completed
Howarth Art Gallery		0.88	Audit Query
Markets		1.05	Audit Query
Parks & Open Spaces	20	18.99	Audit Completed
TOTAL for Establishments	35	31.74	Utilised 90.69% of Allocated Audit Days

Computer Audit	Plan Days	Actual Days	Comments
Data Protection		0.71	Audit Query
Data Security & Storage		0.17	Audit Query
Internet / Email		0.24	Audit Queries
Mobile Telephony		0.07	Audit Query
Network Controls	14	2.74	Audit Completed – 2014/15 W.I.P.
PCI & DSS Security	7	1.03	Audit Commenced – W.I.P.
Software Maintenance Contracts	10	9.61	Audit Completed
System Development		0.57	Audit Advice
TOTAL for Computer Audit	31	15.14	Utilised 48.84% of Allocated Audit Days

Contract Audit	Plan Days	Actual Days	Comments
Contract Standing Orders		0.07	Audit Query
Other Contract Issues	15	13.93	Audit Completed
Over £250 Expenditure Monitoring		3.89	Audit Compliance Work
TOTAL for Contract Audit	15	17.89	Utilised 119.27% of Allocated Audit Days

Grant Funding Initiatives	Plan Days	Actual Days	Comments
NNDR3 Claim	5	2.46	Audit Completed
Townscape Heritage Funding	15	8.90	Audit Completed
TOTAL for Contract Audit	20	11.36	Utilised 56.80% of Allocated Audit Days

Follow Ups	Plan Days	Actual Days	Comments
General Follow Up Work	8	8.38	General Follow Up Work/Admin
TOTAL for Follow Ups	8	8.38	Utilised 104.75% of Allocated Audit Days

Audit Advice	Plan Days	Actual Days	Comments

Benefit Issues		7.10	Advice & Audit Liaison
Internet		16.37	Advice & Compliance Monitoring
Coaching		0.88	Coaching Employees & Advice
Cleaner Contract / Issues		0.14	Audit Input
Urinal Problems - Broadway		0.61	Audit Advice Given
DWP & Residual Fraud Issues		5.66	Audit Input & Advice Given
Financial Procedure Rules		0.95	Audit Input
Ext Audit Governance Questions		1.55	Audit Input
Driver Policy Revised		0.45	Audit Advice Given
Election Papers / Advice		0.07	Audit Advice Given
OSC Inspection		0.14	Audit Input
Confrontation Risks Query		0.07	Audit Advice Given
Lift Room Keys Query		0.14	Audit Input
Revision of the Audit BCP		0.78	Audit Input
Leaders Briefing Info		0.17	Audit input
Code of Practice - Transparency		0.55	Audit Input & Advice Given
Sickness HR21 Pilot		0.95	Audit Input & Advice Given
ICO Web Info		0.80	Audit Awareness & Advice
Trophies Query		0.79	Audit Input
Benchmarking		1.45	Audit Input
Annual Targets		0.10	Audit Advice Given
Root Cause Analysis		0.39	Audit Advice Given
Social Media Auditing		0.32	Audit Advice Given
Scambuster – News in Loos		0.47	Audit Input & Article
Big Thank-you		0.85	Audit Input
Counter Terrorism New Act		0.20	Audit Advice Given
Mega Value Fun Parks		0.50	Audit Advice Given
Invoice – Insurance Issue		0.34	Audit Advice Given
Members IT Query from Pendle		0.07	Audit Advice Given
Document Retention Queries		0.45	Audit Advice Given
RVBC – Parishes Query		0.14	Audit Advice Given
Alcoholometer Recalibration		0.14	Audit Input
Directors on Tour – Service Input		0.20	Audit Input
Assurance Query – Preston CC		0.07	Audit Advice Given
Planning IUC Query / Training		0.74	Audit Advice & Training Given
Forged Bank Notes Alert		0.14	Audit Advice Given
Fraud Alert – Bank Cheques		0.14	Audit Advice Given
DVLA – Vehicle Reg Blocking		0.14	Audit Advice Given
Use of Photo Query		0.10	Audit Advice Given
Chaigley Manor Query		0.07	Audit Advice Given
White Ribbon Ambassador		0.07	Audit Input
Insurance Renewals		0.30	Audit Input & Advice Given
Reception – Refund Cash Issue		0.34	Audit Advice Given
Markets Surveillance Query		0.30	Audit Advice Given
Drugs & Alcohol Policy		1.05	Audit Input & Advice Given
DVSA – Press Query		0.14	Audit Advice Given
Boilers – Cold Calling Issue		0.34	Audit Advice Given
2016/17 Prep Work – Year End		2.14	Audit Input
Memb Services Timesheets Query		0.03	Audit Advice Given
Query from Burnley BC Audit		1.48	Audit Input / Checks
Police Enquiry		0.84	Audit Input / Checks
Cemetery – Card Payment		0.07	Audit Advice Given
Car Insurances Query		0.07	Audit Advice Given
Safeguarding / PREVENT Agenda		0.44	Audit Advice Given

Audit Plan Query – Blackpool BC		0.17	Audit Advice Given
Audit Advice	36		Audit Advice Given
TOTAL for Audit Advice	36	52.97	Utilised 147.14% extra Audit Days than allocated

Other Audit Areas	Plan Days	Actual Days	Comments
Anti-Fraud & Corruption Issues		11.26	Audit Input & Queries
Anti-Social Behav – Com Triggers		3.83	Audit Input / Queries / Work
Business Continuity Planning	12	6.02	Audit Completed
Children & Vulnerable Adults		1.01	Audit Commenced – W.I.P.
Civil Contingencies	13	4.40	Audit Completed
Domestic Homicide		0.21	Audit Query
FOI Requests		1.42	Audit Work Carried Out
Project Management	15	6.68	Audit Completed – 2014/15 W.I.P.
PSIAS		3.80	Audit Input & Queries
Risk Management		1.13	Audit Input & Queries
TOTAL for Other Audit Areas	40	39.76	Utilised 99.40% of Allocated Audit Days

Ad-hoc Work & Investigations	Plan Days	Actual Days	Comments
Bailiff Processes	12	11.14	Audit Completed
CTax / NDR Ownership	10	6.47	Audit Completed
CTax / NDR Refunds	10	6.95	Audit Completed
CTax Debt Write Off Processes	12	8.12	Audit Completed
Data Sharing Protocols	15	13.85	Audit Completed
Leisure in Hyndburn – Info Procs	7	4.88	Audit Completed
Mayoral Secretarial Functions	8	6.26	Audit Completed
Memb Svs – Funding Applications	12	4.58	Audit Completed
NDR – Retails Relief Scheme	10	9.51	Audit Completed
Pest Control	14	9.84	Audit Completed
Recovery Team Processes	15		Audit on hold per Mgt till 2016/17
Willows Lane – Combined Admin	12	0.51	Audit Completed – Added into Pest Control Audit
Land Charges & Registry VDD	12	2.75	Audit Completed – Part of time recorded in non-core section
On-line Payments Working Group		0.85	Audit Input
Mayor – Invitation Query		0.85	Checked out by Audit
Lyndon Playing Fields Sale		1.03	Audit Input
Willows Lane – D & A Testing		1.22	Audit Input
Environmental Svs Investigation		32.36	Investigation Ongoing into 16/17
Contract Compliance Issues		4.41	Audit Input & Advice
Land Charges & Registry VDD	-12		Plan Adjustment
Contingency	79		Contingency Days
TOTAL for Ad-hoc Work & Investigations	216	125.58	Utilised 58.14% of Allocated Audit Days

Consultancy & Corporate Objectives	Plan Days	Actual Days	Comments
Annual Governance Statement	1	0.88	Audit Work Carried Out
Annual Audit Report	3	1.45	Audit Work Carried Out
Audit Committee	4	8.81	Committee Prep / Mtgs / Training

Audit Plan & Planning Cabinet	15	19.57	Monitor Plan & Prep of 16/17 Plan
External Audit	3	3.93	Support Audit Work / Knowledge Liaison Mtgs & Supply IA Work
LEBP Ambassador Scheme		10.21	Schools Ambassador Work
Members Info Bulletins	2		No Time Recorded in this Area
Money Launder & Proc of Crime		3.70	Queries dealt with
National Fraud Initiative	8	8.65	Support & Audit Work Carried Out
RIPA		0.75	Audit Query
Service Planning	2		No Time Recorded in this Area
Stage 3 Complaint Investigations		26.97	Work Carried Out
Whistleblowing		1.03	Audit Work & Input
TOTAL for Other Audit Areas	38	88.93	Utilised 234.03% of Allocated Audit Days

Service Improvement	Plan Days	Actual Days	Comments
LDCAG Benchmarking		3.83	Various Training – mainly in-house
TOTAL for Service Improvement	0	3.83	No Audit Days had been Allocated

Training	Plan Days	Actual Days	Comments
Staff Development & Training	15	22.30	Various Training – mainly in-house
TOTAL for Training	15	22.30	Utilised 148.67% of Allocated Audit Days

- 4.4 There were 3 audit assignments that were in progress at year end but not quite completed, these will all be reported in 2016/17. There was only 1 audit assignment that had not been completed or commenced by the end of 2015/16 and this was at the direct request of management in the service area. This audit assignment has rolled forward in to the 2016/17 Audit Plan following re-assessment and risk scoring.
- 4.5 The Audit Plan is monitored monthly by the Head of Audit & Investigations, therefore emerging risks are considered and absorbed into the work of the team as required. The Head of Audit & Investigations will seek re-approval of the Audit Plan from Audit Committee if there is major slippage or significant risks arising that result in a major deviation from planned audit work. Long term sickness of a team member can have an impact on the Audit Plan although this did not occur in 2015/16.
- 4.6 Target coverage for the 2015/16 Audit Plan was 98% and 101.69% was achieved. This is the highest out-turn performance figure that has been achieved by Internal Audit Team at Hyndburn and is as a result of the hard work and dedication shown by the team. As this is the first time the 98% target has been exceeded, the Head of Audit & Investigations has left the target as 98% for 2016/17. In the event that the target is exceeded again then it will be revised for 2017/18.

REPORT DISTRIBUTION

The report has been distributed to the following:-

- Corporate Management Team
- Members of Audit Committee
- External Audit
- Internal Audit

REPORT VERSION

Draft Report Checked & Approved: 21 April 2016

Final Report Issued: 25 April 2016

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Agenda Item 5.

REPORT TO:	Audit Committee		
DATE:	27 June 2016		
PORTFOLIO:	Cllr Gareth Molineux - Resources		
REPORT AUTHOR:	Mark Beard – Head of Audit & Investigations		
TITLE OF REPORT:	PUBLIC SECTOR INTERNAL AUDIT STANDARDS SELF-ASSESSMENT AND QUALITY ASSURANCE & IMPROVEMENT PROGRAMME		
EXEMPT REPORT (Local Government Act 1972, Schedule 12A)	No	Not applicable	
KEY DECISION:	No	If yes, date of publication:	

1. **Purpose of Report**

- 1.1 To inform members of the updated self-assessment of the Public Sector Internal Audit Standards (PSIAS) carried out by the Head of Audit & Investigations and also the Quality Assurance and Improvement Programme (QAIP) which sets out how we manage any standards that are not compliant, thus ensuring conformance with the PSIA's overall.

2. **Recommendations**

- 2.1 I recommend that Audit Committee:
- notes the updated PSIAS Self-Assessment; and
 - notes the updated QAIP.

3. **Reasons for Recommendations and Background**

- 3.1 The PSIA's have been in place since 1st April 2013 and replace the former Code of Practice for Internal Audit in Local Government 2006.
- 3.2 The Standards are subject to a self-assessment which is carried out annually by the Head of Audit & Investigations and will be subject of an external assessment prior to 31st March 2018. Work is at an advanced stage at a County-wide level with 8 of the other Lancashire Heads of Audit in relation to the external assessment process.
- 3.3 Hyndburn's Internal Audit function will be subject to external Peer Review by 2 of the other Lancashire Heads of Audit. The Head of Audit & Investigations will be involved in

the Peer Review External inspection of 2 Lancashire Internal Audit Teams. The process and timetable are being finalised and the Head of Audit & Investigations will produce an update report for Audit Committee in due course.

- 3.3 In addition the standards also state that is a Quality Assurance and Improvement Programme (QAIP) in place to demonstrate both how conformance with the Standards is monitored and met together with what is in place for those areas that do not fully comply with the Standards.
- 3.4 This was the third self-assessment of the Standards carried out by the Head of Audit & Investigations. The PSIAs checklist considers 332 individual tasks and areas that Internal Audit must comply with. The self-assessment highlighted that 19 of these were not applicable to Internal Audit at Hyndburn and of the remaining 313, the Internal Audit Team is 96.49% complaint (302). **APPENDIX 1**
- 3.5 The QAIP has been rechecked and revised to reflect the changes from the self-assessment. Of the 11 areas not compliant, 6 are partially complaint and 5 are not compliant. **APPENDIX 2**

4. Alternative Options considered and Reasons for Rejection

- 4.1 Ensuring that a self-assessment of the PSIAs is carried out by an appropriately qualified person and that a QAIP is in place are both factors from within the said standards. The only alternative would be to not do either of these necessary tasks both of which are a requirement of the PSIAs.

5. Consultations

- 5.1 No consultations required as this report is based on the PSIAs Self-Assessment and the QAIP, both of which are attached to this report.

6. Implications

Financial implications (including any future financial commitments for the Council)	There are no financial implications arising from this report
Legal and human rights implications	There are legal or human rights implications arising from this report.
Assessment of risk	Risks are taken into consideration during the audit process itself, there is no direct risk implication from this report.
Equality and diversity implications <i>A Customer First Analysis should be</i>	A Customer First Analysis is not required as

completed in relation to policy decisions and should be attached as an appendix to the report.

the PSIA's or QAIP are not setting new policy for the audit function or Council. These two documents demonstrate elements required with the PSIA's.

**7. Local Government (Access to Information) Act 1985:
List of Background Papers**

7.1 No background papers were necessary for the preparation of this report.

8. Freedom of Information

8.1 The report does not contain exempt information under the Local Government Act 1972, Schedule 12A and all information can be disclosed under the Freedom of Information Act 2000.

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Ref	Conformance with the Standard	Y	P	N	Evidence
1	Definition of Internal Auditing				
	Using evidence gained from assessing conformance with other standards, is the internal audit activity: a) Independent? b) Objective?	✓ ✓			
	Using evidence gained from assessing conformance with other standards, does the internal audit activity use a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes within the organisation?	✓			
2	Code of Ethics				
	Integrity Using evidence gained from assessing conformance with other standards, do internal auditors: a) Perform their work with honesty, diligence and responsibility? b) Observe the law and make disclosures expected by the law and the profession? c) Not knowingly partake in any illegal activity nor engage in acts that are discreditable to the profession of internal auditing or the organisation? d) Respect and contribute to the legitimate and ethical objectives of the organisation?	✓ ✓ ✓ ✓			

Ref	Conformance with the Standard	Y	P	N	Evidence
	<p>Objectivity</p> <p>Using evidence gained from assessing conformance with other standards, do internal auditors display objectivity by not:</p> <ul style="list-style-type: none"> a) Taking part in any activity or relationship that may impair or be presumed to impair their unbiased assessment? b) Accepting anything that may impair or be presumed to impair their professional judgement? c) Disclosing all material facts known to them that, if not disclosed, may distort the reporting of activities under review? 	<p>✓</p> <p>✓</p> <p>✓</p>			
	<p>Confidentiality</p> <p>Using evidence gained from assessing conformance with other standards, do internal auditors display objectivity by:</p> <ul style="list-style-type: none"> a) Acting prudently when using information acquired in the course of their duties and protecting that information? b) Not using information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation? 	<p>✓</p> <p>✓</p>			
	<p>Competency</p> <p>Using evidence gained from assessing conformance with other standards, do internal auditors display objectivity by:</p> <ul style="list-style-type: none"> a) Only carrying out services for which they have the necessary knowledge, skills and experience? b) Performing services in accordance with the PSIAS? 	<p>✓</p> <p>✓</p>			

Ref	Conformance with the Standard	Y	P	N	Evidence
	c) Continually improving their proficiency and effectiveness and quality of their services, for example through CPD schemes?	✓			
	Do internal auditors have regard to the on Standards of Public Life's <i>Seven Principles of Public Life</i> ?	✓			

Standards					
3	Attribute Standards				
3.1	1000 Purpose, Authority and Responsibility				
	Does the internal audit charter include a formal definition of: a) The purpose b) The authority; and c) The responsibility Of the internal audit activity consistent with the Public Sector Internal Audit Standards (PSIAS)?	✓ ✓ ✓			
LGAN	Does the internal audit charter define the terms 'board' and 'senior management', for the purpose of the internal audit activity? Note that it is expected that the audit committee will fulfil the role of the board in the majority of instances.	✓			
LGAN	Does the internal audit charter also: a) Set out the internal audit activity's position within the organisation? b) Establish the CAE's functional reporting relationship with the board? c) Establish the accountability, reporting line and relationship between the CAE and those to whom the CAE may report administratively?	✓ ✓ ✓			

Ref	Conformance with the Standard	Y	P	N	Evidence
LGAN	d) Establish the responsibility of the board and also the role of the statutory officers (such as CFO, the monitoring officer and the head of paid service) with regards to internal audit?	✓			
	e) Establish internal audit's right of access to all records, assets, personnel and premises and its authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities?	✓			
LGAN	f) Define the scope of internal audit activities?	✓			
LGAN	g) Recognise that internal audit's remit extends to the entire control environment of the organisation?	✓			
LGAN	h) Identify internal audit's contribution to the review of effectiveness of the control environment, as set out in the Accounts and Audit (England) Regulations 2011?	✓			
	i) Establish the organisational independence of internal audit?	✓			
	j) Cover the arrangements for appropriate resourcing?	✓			
	k) Define the role of internal audit in any fraud-related work?	✓			
	l) Set out the existing arrangements within the organisation's anti-fraud and anti-corruption policies, to be notified of all suspected or detected fraud, corruption or impropriety?	✓			
	m) Include arrangements for avoiding conflicts of interest if internal audit undertakes non-audit activities?	✓			

Ref	Conformance with the Standard	Y	P	N	Evidence
	n) Define the nature of assurance services provided to the organisation, as well as assurances provided to parties external to the organisation?	✓			
	o) Define the nature of consulting services?	✓			
	p) Recognise the mandatory nature of PSIAS?	✓			
	Does the chief audit executive (CAE) periodically review the internal audit charter and present it to senior management and the board for approval?	✓			
	Does the CAE attend audit committee meetings?	✓			
	Does the CAE contribute to audit committee agendas?	✓			
3.2	1100 Independence and Objectivity				
	Does the CAE have direct unrestricted access to senior management and the board?	✓			
	Does the CAE have free and unfettered access to, as well as communicate effectively with the chief executive or equivalent and the chair of the audit committee?	✓			
	Are threats to objectivity identified and managed at the following levels:				
	a) Individual auditor?	✓			
	b) Engagement?	✓			
	c) Functional?	✓			
	d) Organisation?	✓			
	1110 Organisational Independence				
	Does the CAE report to an organisational level equal or higher to the corporate management team?	✓			
LGAN	Does the CAE report to a level within the organisation that allows internal audit to fulfil its responsibilities?	✓			

Ref	Conformance with the Standard	Y	P	N	Evidence
LGAN	<p>Have reporting and management arrangements been put in place that preserves the CAE's independence and objectivity?</p> <p>This is of particular importance when the CAE is line managed by another officer of the authority.</p>	✓			
LGAN	<p>Does the CAE's position in the management structure:</p> <p>a) Reflect the influence he or she has on the control environment?</p> <p>b) Provide the CAE with sufficient status to ensure that the audit plans, reports and action plans are discussed effectively with the board?</p> <p>c) Ensure that he or she is sufficiently senior and independent to be able to provide credibly constructive challenge to senior management?</p>	<p>✓</p> <p>✓</p> <p>✓</p>			
	<p>Does the CAE confirm to the board, at least annually, that the internal audit activity is organisationally independent?</p> <p>The following examples can be used by the CAE when assessing the organisational independence of the internal audit activity. The board:</p> <p>a) approves the internal audit charter</p> <p>b) approves the risk-based audit plan</p> <p>c) approves the internal audit budget and resource plan</p> <p>d) receives communications from the CAE on the activity's performance (in relation to the plan, for example)</p> <p>e) approves decisions relating to the appointment and removal of the CAE</p>	✓			

Ref	Conformance with the Standard	Y	P	N	Evidence
	f) Seeks reassurance from management and the CAE as to whether there are any inappropriate scope or resources limitations.				
	Does the chief executive or equivalent undertake, countersign, contribute, feedback to or review the performance appraisal of the CAE?	✓			
	Is feedback sought from the chair of audit committee for the CAE's performance appraisal?			✓	
	1111 Direct Interaction with the Board				
	Does the CAE communicate and interact directly with the board?	✓			
	1120 Individual Objectivity				
	Do internal Auditors have an impartial unbiased attitude?	✓			
	Do internal auditors avoid any conflict of interest, whether apparent or actual?	✓			
	1130 Impairment to Independence or Objectivity				
	If there has been any real or apparent impairment of independence or objectivity, has this been disclosed to appropriate parties (depending on the nature of the impairment and relationship between the CAE and senior management / the board as set out in the internal audit charter)?				
	Have internal auditors assessed specific operations for which they have been responsible within the previous year?			✓	
	If there have been any assurance engagements in areas over which the CAE also has operational responsibility, have these engagements been overseen by someone outside of the internal audit activity?	✓			
LGAN	Are assignments for on-going assurance engagements and other audit responsibilities rotated periodically within the internal audit team?	✓			
LGAN	Have internal auditors declared interests in accordance with organisational requirements?	✓			

Ref	Conformance with the Standard	Y	P	N	Evidence
LGAN	Where any internal auditor has accepted any gifts, hospitality, inducements or other benefits from employees, clients, suppliers or other third parties (other than as may be allowed by the organisation's own policies), has this been declared and investigated fully?	✓			
LGAN	Have any instances been discovered where an internal auditor has used information obtained during the course of duties for personal gain?			✓	
LGAN	Have internal auditors disclosed all material facts known to them which, if not disclosed, could distort their reports or conceal unlawful practice, subject to any confidentiality agreements?	✓			
LGAN	Have internal auditors complied with the Bribery Act 2010?	✓			
	If there has been any real or apparent impairment of independence or objectivity relating to a proposed consulting services engagement, was this disclosed to the engagement client before the engagement was accepted?				
	Where there have been significant additional consulting services agreed during the year that were not already included in the audit plan, was approval sought from the board before the engagement was accepted?				

3.3	1200 Proficiency and Due Professional Care				
	1210 Proficiency				
	Does the CAE hold a professional qualification, such as CMIIA / CCAB or equivalent?	✓			
	Is the CAE suitably experienced?	✓			
LGAN	Is the CAE responsible for recruiting appropriate internal audit staff, in accordance with the organisation's human resources processes?	✓			
LGAN	Does the CAE ensure that up-to-date job descriptions exist that reflect roles and responsibilities and that person specifications define the required qualifications, competencies, skills, experience and personal attributes?	✓			

Ref	Conformance with the Standard	Y	P	N	Evidence
	Does the internal audit activity collectively possess or obtain the skills, knowledge and other competencies required to perform its responsibilities?	✓			
	Where the internal audit activity does not possess the skills, knowledge and other competencies required to perform its responsibilities, does the CAE obtain competent advice and assistance?	✓			
	Do internal auditors have sufficient knowledge to evaluate the risk of fraud and anti-fraud arrangements in the organisation?	✓			
	Do internal auditors have sufficient knowledge of key information technology risks and controls?	✓			
	Do internal auditors have sufficient knowledge of the appropriate computer-assisted audit techniques that are available to them to perform their work, including data analysis techniques?	✓			
	1220 Due Professional Care				
	Do internal auditors exercise due professional care by considering the:				
	a) Extent of work needed to achieve the engagement's objectives?	✓			
	b) Relative complexity, materiality or significance of matters to which assurance procedures are applied?	✓			
	c) Adequacy and effectiveness of governance, risk management and control processes?	✓			
	d) Probability of significant errors, fraud, or non-compliance?	✓			
	e) Cost of assurance in relation to potential benefits?	✓			

Ref	Conformance with the Standard	Y	P	N	Evidence
	Do internal auditors exercise due professional care during a consulting engagement by considering the: <ul style="list-style-type: none"> a) Needs and expectations of clients, including the nature, timing and communication of engagement results? b) Relative complexity and extent of work needed to achieve the engagement's objectives? c) Cost of the consulting engagement in relation to potential benefits? 	✓			
	1230 Continuing Professional Development				
LGAN	Has the CAE defined the skills and competencies for each level of auditor?	✓			
LGAN	Does the CAE periodically assess individual auditors against the predetermined skills and competencies?	✓			
	Do internal auditors undertake a programme of continuing professional development?	✓			
	Do internal auditors maintain a record of their professional development and training activities?	✓			
3.4	1300 Quality Assurance and Improvement Programme				
	Has the CAE developed a Quality Assurance and Improvement Programme (QAIP) that covers all aspects of the internal audit activity and enables conformance with all aspects of the PSIAS to be evaluated?	✓			
	Does the QAIP assess the efficiency and effectiveness of the internal audit activity and identify opportunities for improvement?	✓			
	Does the CAE maintain the QAIP?	✓			

Ref	Conformance with the Standard	Y	P	N	Evidence
LGAN	If the organisation is a 'larger relevant body' in England, does it conduct a review of the effectiveness of its internal audit at least annually, in accordance with the Accounts and Audit *England)) Regulations 2011 section 6(3)	✓			
	1310 Requirements of the Quality Assurance and Improvement Programme				
	Does the QAIP include both Internal and external assessments?		✓		
	1311 Internal Assessments				
LGAN	Does the CAE ensure that audit work is allocated to staff with the appropriate skills, experience and competence?	✓			
	Do internal assessments include on-going monitoring of the internal audit activity, such as:				
	a) Routine quality monitoring processes?	✓			
	b) Periodic assessments for evaluating conformance with the PSIAS?	✓			
LGAN	Does on-going performance monitoring include comprehensive performance targets?	✓			
LGAN	Are the performance targets developed in consultation with appropriate parties and included in any service level agreement?	✓			
LGAN	Does the CAE measure, monitor and report on progress against these targets?	✓			
LGAN	Does on-going performance monitoring include obtaining stakeholder feedback?	✓			
	Are the periodic self-assessments or assessments carried out by people external to the internal audit activity undertaken by those with a sufficient knowledge of internal audit practices?		✓		
	Sufficiency would require knowledge of the PSIAS and the wide guidance available such as the Local Government Application Note and / or IIA practice advisories, etc.				

Ref	Conformance with the Standard	Y	P	N	Evidence
LGAN	Does the periodic assessment include a review of the activity against the risk-based plan and the achievement of its aims and objectives?	✓			
	1312 External Assessments				
	Has an external assessment been carried out, or is planned to be carried out, at least once every five years?	✓			
LGAN	Has the CAE considered the pros and cons for the different types of external assessment (i.e. 'full' or self-assessment plus 'independent validation')?	✓			
	Has the CAE discussed the proposed form of the external assessment and the qualifications and independence of the assessor or assessment team with the board?		✓		
LGAN	Has the CAE agreed the scope of the external assessment with an appropriate sponsor, such as the chair of the audit committee, the CFO or the chief executive?			✓	
	Has the CAE agreed the scope of the external assessment with the external assessor or assessment team?			✓	
	<p>Has the assessor or assessment team demonstrated its competence in both areas of professional practice of internal auditing and the external assessment process?</p> <p>Competence can be determined in the following ways:</p> <ul style="list-style-type: none"> a) Experience gained in organisations of similar size b) Complexity c) Sector (i.e. the public sector) d) Industry (i.e. local government); and e) Technical experience. <p>Note that if an assessment team is used, competence needs to be demonstrated across the team and not for each individual member.</p>				

Ref	Conformance with the Standard	Y	P	N	Evidence
	How has the CAE used his or her professional judgement to decide whether the assessor or assessment team demonstrates sufficient competence to carry out the external assessment?				
	Does the assessor or assessment team have any real or apparent conflicts of interest with the organisation? This may include, but is not limited to, being a part of or under the control of the organisation to which the internal audit activity belongs.				
	1320 Reporting on the Quality Assurance and Improvement Programme				
	Has the CAE reported the results of QAIP to senior management and the board? Note that: a) The results of both external and periodic internal assessment must be communicated upon completion b) The results of on-going monitoring must be communicated at least annually. c) The results must include the assessor's or assessment team's evaluation with regards to the degree of the internal audit activity's conformance with the PSIAS	✓			
	Has the CAE included the results of the QAIP and progress against any improvement plans in the annual report?	✓			
	1321 Use of 'Conforms with the International Standards for the Professional Practice of Internal Auditing'				
	Has the CAE stated that the internal audit activity conforms with the PSIAS only if the results of the QAIP support this?	✓			
	1322 Disclosure of Non-conformance				
	Has the CAE reported any instances of non-conformance with the PSIAS to the board?				

Ref	Conformance with the Standard	Y	P	N	Evidence
	Has the CAE considered including any significant deviations from the PSIAS in the governance statement and has this been evidenced?				
4	Performance Standards				
4.1	2000 Managing the Internal Audit Activity				
	Do the results of the internal audit activity's work achieve the purposes and responsibility of the activity, as set out in the internal audit charter?	✓			
	Does the internal audit activity conform with the <i>Definition of Internal Auditing in the Standards</i> ?	✓			
	Do individual internal auditors, who are part of the internal audit activity, demonstrate conformance with the <i>Code of Ethics</i> and the <i>Standards</i> ?	✓			
	Does the internal audit activity add value to the organisation and its stakeholders by				
	a) Providing objective and relative assurance?	✓			
	b) Contributing to the effectiveness and efficiency of the governance, risk management and internal control processes?	✓			
	2010 Planning				
	Has the CAE determined the priorities of the internal audit activity in a risk-based plan and are these priorities consistent with the organisation's goals?	✓			
	Does the risk-based plan take into account the requirements to produce an annual internal audit opinion?	✓			
	Does the risk-based plan take into account the organisation's assurance framework?	✓			
	Does the risk-based plan incorporate or is it linked to a strategic or high level statement of:				
	a) How the internal audit service will be delivered?	✓			
	b) How the internal audit service will be developed in accordance with the internal audit charter?	✓			

Ref	Conformance with the Standard	Y	P	N	Evidence
	c) How the internal audit service links to organisational objectives and priorities?	✓			
	Does the risk-based plan set out how internal audit's work will identify and address local and national issues and risks?	✓			
	In developing the risk-based plan, has the CAE taken into account the organisation's risk management framework and relative risk maturity of the organisation?	✓			
	If such a risk management framework does not exist, has the CAE used his or her own judgement of risks after input from senior management and the board and evidenced this?	✓			
LGAN	Does the risk-based plan set out the: <ul style="list-style-type: none"> a) Audit work to be carried out? b) Respective priorities of those pieces of work? c) Estimated resources needed for the work? 	✓ ✓ ✓			
LGAN	Does the risk-based plan differentiate between audit and other types of work?	✓			
LGAN	Is the risk-based plan sufficiently flexible to reflect changing risks and priorities of the organisation?	✓			
	Does the CAE review the plan on a regular basis and has he or she adjusted the plan when necessary in response to changes in the organisation's business, risks, operations, programmes, systems and controls?	✓			
	Is the internal audit activity's plan of engagements based on a documented risk assessment?	✓			
	Is the risk assessment used to develop the plan of engagements undertaken at least annually?	✓			

Ref	Conformance with the Standard	Y	P	N	Evidence
LGAN	In developing the risk-based plan, has the CAE also considered the following: a) Any declarations of interest (for the avoidance for conflicts of interest)? b) The requirement to use specialists, e.g. IT or contract and procurement auditors? c) Allowing Contingency time to undertake ad hoc reviews or fraud investigations as necessary? d) The time required to carry out the audit planning process effectively as well as regular reporting to and attendance of the board, the development of the annual report and the CAE opinion?	✓ ✓ ✓ ✓			
	Is the input of senior management and the board considered in the risk assessment process?	✓			
	Does the CAE identify and consider the expectations of senior management, the board and other stakeholders for internal audit opinion and any other conclusions?	✓			
	Does the CAE take into consideration any proposed consulting engagement's potential to improve the management of risks, to add value and to improve the organisation's operations before accepting them?	✓			
	Are consulting engagements that have been accepted included in the risk-based plan?	✓			
	2020 Communication and Approval				
	Has the CAE communicated the internal audit activity's plans and resource requirements to senior management and the board for review and approval?	✓			
	Has the CAE communicated any significant interim changes to the plan and/or resource requirements to senior management and the board for review and approval, where such changes have arisen?	✓			

Ref	Conformance with the Standard	Y	P	N	Evidence
	Has the CAE communicated the impact of any resource limitations to senior management and the board?	✓			
	2030 Resource Management				
	Does the risk-based plan explain how internal audit's resource requirements have been assessed?	✓			
LGAN	Has the CAE planned the deployment of resources, especially the timing of engagements, in conjunction with management to minimise abortive work and time?	✓			
LGAN	If the CAE believes that the level of agreed resources will impact adversely on the provision of the internal audit opinion, has he or she brought these consequences to the attention of the board? This may include an Imbalance between the work plan and resource availability and/or significant matters that jeopardise the delivery of the plan or require it to be changed.	✓			
	2040 Policies and Procedures				
	Has the CAE developed and put into place policies and procedures to guide the internal audit activity?	✓			
LGAN	Has the CAE established policies and procedures to guide staff in performing their duties in a manner that conforms to the PSIAS? Examples include maintaining an audit manual and/or using electronic management systems.	✓			
LGAN	Are policies and procedures regularly reviewed and updated to reflect changes in the working practices and standards?	✓			
	2050 Coordination				
	Does the risk-based plan include the approach to using other sources of assurance and any work that may be required to place reliance upon those sources?	✓			
LGAN	Has the CAE carried out an assurance mapping exercise as part of identifying and determining the approach to using other sources of assurance?	✓			

Ref	Conformance with the Standard	Y	P	N	Evidence
	Does the CAE share information and coordinate activities with other internal and external providers of assurance and consulting services?	✓			
LGAN	Does the CAE meet regularly with the nominated external audit representative to consult on and coordinate their respective audit plans?	✓			
	2060 Reporting to Senior Management and the Board				
	Does the CAE report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility and performance relative to its plan?	✓			
	Does the periodic reporting also include significant risk exposures and control issues, including fraud risks, governance issues and other matters needed or requested by senior management and the board?	✓			
	Is the frequency and content of such reporting determined in discussion with senior management and the board and are they dependent on the importance of the information to be communicated and the urgency of the related actions to be taken by senior management or the board?	✓			
	2070 External Service Provider and Organisational Responsibility for Internal Auditing				
	Where an external internal audit service provider acts as the internal audit activity, does that provider ensure that the organisation is aware that the responsibility for maintaining an effective internal audit activity remains with the organisation?				

4.2	2100 Nature of Work				
	Does the internal audit activity evaluate and contribute to the improvement of the organisation's governance, risk management and internal control processes?	✓			
	Does the internal audit activity evaluate and contribute to the improvement of the above using a systematic and disciplined approach and is this evidenced?	✓			

Ref	Conformance with the Standard	Y	P	N	Evidence
	2110 Governance				
	Does the internal audit activity:				
	a) Promote appropriate ethics and values within the organisation?	✓			
	b) Ensure effective organisational performance management and accountability?	✓			
	c) Communicate risk and control information to appropriate areas of the organisation?	✓			
	d) Coordinate the activities of and communicate information amount the board, external and internal auditors and management?	✓			
	Does the internal audit activity assess and make appropriate recommendations for improving the governance process as part of accomplishing the above objectives?	✓			
	Has the internal audit activity evaluated the:				
	a) Design				
	b) Implementation, and				
	c) Effectiveness				
	Of the organisation's ethics-related objectives, programmes and activities?	✓			
	Has the internal audit activity assessed whether the organisation's information technology governance supports the organisation's strategies and objectives?	✓			
LGAN	Has the CAE considered the proportionality of the amount of work required to assess the ethics and information technology governance of the organisation when developing the risk-based plan?	✓			

Ref	Conformance with the Standard	Y	P	N	Evidence
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	2120 Risk Management				
	<p>Has the internal audit activity evaluated the effectiveness of the organisations risk management processes by determining that:</p> <ul style="list-style-type: none"> a) Organisational objectives support and align with the organisation's mission? ✓ b) Significant risks are identified and assessed ✓ c) Appropriate risk responses are selected that align risks with the organisation's risk appetite? ✓ d) Relevant risk information is captured and communicated in a timely manner across the organisation, thus enabling the staff, management and the board to carry out their responsibilities? ✓ 				
	<p>Has the internal audit activity evaluated the risks relating to the organisation's governance, operations and information systems regarding the:</p> <ul style="list-style-type: none"> a) Achievement of the organisation's strategic objectives? ✓ b) Reliability and integrity of financial and operational information? ✓ c) Effectiveness and efficiency of operations and programmes? ✓ d) Safeguarding of assets? ✓ e) Compliance with laws, regulations, policies, procedures and contracts? ✓ 				
	Has the internal audit activity evaluated the potential for fraud and also how the organisation itself manages fraud risk?	✓			

Ref	Conformance with the Standard	Y	P	N	Evidence
	Do internal auditors address risk during consulting engagements consistently with the objectives of the engagement?	✓			
	Are internal auditors alert to other significant risks when undertaking consulting engagements?	✓			
	Do internal auditors successfully avoid managing risks themselves, which would in effect lead to taking on management responsibility, when assisting management in establishing or improving risks management processes?	✓			
	2130 Control				
	Has the internal audit activity evaluated the adequacy and effectiveness of controls in the organisation's governance operations and information systems regarding the: <ul style="list-style-type: none"> a) Achievement of the organisation's strategic objectives? b) Reliability and integrity of financial and operational information? c) Effectiveness and efficiency of operations and programmes? d) Safeguarding of assets? e) Compliance with laws, regulations, policies, procedures and contracts? 	 ✓ ✓ ✓ ✓ ✓			
	Do internal auditors utilise knowledge of controls gained during consulting engagements when evaluating the organisation's control processes?	✓			
4.3	2200 Engagement Planning				
	Do internal auditors develop and document a plan for each engagement?	✓			

Ref	Conformance with the Standard	Y	P	N	Evidence
	<p>Does the engagement plan include the engagement's:</p> <ul style="list-style-type: none"> a) Objectives? b) Scope? c) Timing? d) Resource allocations? 	<p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p>			
	<p>Do internal auditors consider the following in planning an engagement and is this documented:</p> <ul style="list-style-type: none"> a) The objectives of the activity being reviewed? b) The means by which the activity controls its performance? c) The significant risks to the activity being audited? d) The activity's resources? e) The activity's operations? f) The means by which the potential impact of risk is kept to an acceptable level? g) The adequacy and effectiveness of the activity's governance, risk management and control processes compared to a relevant framework or model? h) The opportunities for making significant improvements to the activity's governance, risk management and control processes? 	<p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p>			

Ref	Conformance with the Standard	Y	P	N	Evidence
	Where an engagement plan has been drawn up for an audit to a party outside of the organisation, have the internal auditors established a written understanding with that party about the following: a) Objectives? b) Scope? c) The respective responsibilities and other expectations of the internal auditors and the outside party (including restrictions on distribution of the results of the engagement and access to engagement records)?	✓ ✓ ✓			
	For consulting engagements, have internal auditors established an understanding with the engagement clients about the following: a) Objectives? b) Scope? c) The respective responsibilities of the internal auditors and the client and other client expectations?	✓ ✓ ✓			
	For significant consulting engagements, has this understanding been documented?	✓			
	2210 Engagement Objectives				
	Have objectives been agreed for each engagement?	✓			
	Have internal auditors carried out a preliminary risk assessment of the activity under review?		✓		
	Do the engagement objectives reflect the results of the preliminary risk assessment that has been carried out?		✓		

Ref	Conformance with the Standard	Y	P	N	Evidence
	Have internal auditors considered the probability of the following, when developing the engagement objectives: a) Significant errors? b) Fraud? c) Non-compliance? d) Any other risks?	✓ ✓ ✓ ✓			
	Have internal auditors ascertained whether management and / or the board have established adequate criteria to evaluate and determine whether objectives and goals have been accomplished?	✓			
	If the criteria have been deemed adequate, have the internal auditors used the criteria in their evaluation of governance, risk management and controls?	✓			
	If the criteria have been deemed inadequate, have the internal auditors worked with management and/or the board to develop appropriate evaluation criteria?	✓			
LGAN	If the value for money criteria has been referred to, has the use of all the organisation's main types of resources been considered, including money, people and assets?		✓		
	Do the objectives set for consulting engagements address governance, risk management and control processes as agreed with the client?	✓			
	Are the objectives set for consulting engagements consistent with the organisation's own values, strategies and objectives?	✓			
	2220 Engagement Scope				
	Is the scope that is established for the engagement sufficient to satisfy the engagement's objectives?	✓			

Ref	Conformance with the Standard	Y	P	N	Evidence
	<p>Does the engagement scope include consideration of the following relevant areas of the organisation:</p> <p>a) Systems?</p> <p>b) Records?</p> <p>c) Personnel?</p> <p>d) Premises?</p>	<p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p>			
	<p>Does the engagement scope include consideration of the following relevant areas under the control of outside parties, where appropriate:</p> <p>a) Systems?</p> <p>b) Records?</p> <p>c) Personnel?</p> <p>d) Premises?</p>	<p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p>			
	Where significant consulting opportunities have arisen during an assurance engagement, was a specific written understanding as to when the objectives, scope, respective responsibilities and other expectations drawn up?				
	Where significant consulting opportunities have arisen during an assurance engagement, were the results of the subsequent engagement communicated in accordance with the relevant consulting standards?				
	For a consulting engagement, was the scope of the engagement sufficient to address any agreed upon objectives?	✓			

Ref	Conformance with the Standard	Y	P	N	Evidence
	If the internal auditors developed any reservations about the scope of a consulting engagement while undertaking the engagement, did they discuss those reservations with the client and therefore determine whether or not to continue with the engagement?				
	During consulting engagements, did internal auditors address the controls that are considered with the objectives of those engagements?	✓			
	During consulting engagements, were internal auditors alert to any significant control issues?	✓			
	2230 Engagement Resource Allocation				
	Have internal auditors decided upon the appropriate and sufficient level of resources required to achieve the objectives of the engagement based on:				
	a) The nature and complexity of each individual engagement?	✓			
	b) Any time constraints?	✓			
	c) The resources available?	✓			
	2240 Engagement Work Programme				
	Have internal auditors developed and documented work programmes that achieve the engagement objectives?	✓			
	Do the engagement work programmes include the following procedures for:				
	a) Identifying information?	✓			
	b) Analysing information?	✓			
	c) Evaluating information?	✓			
	d) Documenting information?	✓			
	Were work programmes approved prior to implementation for each engagement?	✓			
	Were any adjustments required to work programmes approved promptly?	✓			

Ref	Conformance with the Standard	Y	P	N	Evidence
4.4	2300 Performing the Engagement				
	Have internal auditors carried out the following in order to achieve each engagement's objectives:				
	a) Identify sufficient information?	✓			
	b) Analyse sufficient information?	✓			
	c) Evaluate sufficient information?	✓			
	d) Document sufficient information?	✓			
	2310 Identifying information				
	Have internal auditors identified the following in order to achieve each engagement's objectives:				
	a) Sufficient information?	✓			
	b) Reliable information?	✓			
	c) Relevant information?	✓			
	d) Useful information?	✓			
	2320 Analysis and Evaluation				
	Have internal auditors based their conclusions and engagement results on appropriate analyses and evaluations?	✓			
LGAN	Have internal auditors remained alert to the possibility of the following:				
	a) Intentional wrongdoing	✓			
	b) Errors and omissions	✓			
	c) Poor value for money	✓			

Ref	Conformance with the Standard	Y	P	N	Evidence
	d) Failure to comply with management policy, and e) Conflicts of interest	✓ ✓			
	When performing the individual audits, and has this been documented?	✓			
	2330 Documenting Information				
	Have internal auditors documented the relevant information required to support engagement conclusions and results?	✓			
LGAN	Are working papers sufficiently complete and detailed to enable another experienced internal auditor with no previous connection with the audit to ascertain what work was performed, to re-perform it if necessary and to support the conclusions reached?	✓			
	Does the CAE control access to engagement records?	✓			
	Has the CAE obtained the approval of senior management and/or legal counsel as appropriate before releasing such records to external parties?	✓			
	Has the CAE developed and implemented retention requirements for all types of engagement records?	✓			
	Are the retention requirements for engagement records consistent with the organisation's own guidelines as well as any relevant regulatory or other requirements?	✓			
	2340 Engagement Supervision				
	Are all engagements properly supervised to ensure that objectives are achieved, quality is assured and that staff are developed?	✓			
	Is appropriate evidence of supervision documented and retained for each engagement?	✓			
4.5	2400 Communicating Results				
	Do internal auditors communicate the results of engagements?	✓			

Ref	Conformance with the Standard	Y	P	N	Evidence
	2410 Criteria for Communicating				
	Do the communications of engagement results include the following:				
	a) The engagement's objectives?	✓			
	b) The scope of the engagement?	✓			
	c) Applicable conclusions?	✓			
	d) Recommendations and action plans, if appropriate?	✓			
LGAN	Has the internal auditor discussed the contents of the draft report with the appropriate levels of management to confirm factual accuracy, seek comments and confirm the agreed management actions?	✓			
LGAN	If recommendations and an action plan have been included, are recommendations prioritised according to risk?	✓			
LGAN	If recommendations and an action plan have been included, does the communication also state agreements already reached with management together with appropriate timescales?	✓			
LGAN	If there are any areas of disagreement between the internal auditor and management, which cannot be resolved by discussion, are these recorded in the action plan and the residual risk highlighted?	✓			
LGAN	Do communications disclose all material facts known to them in their audit reports which, if not disclosed, could distort their reports or conceal unlawful practice, subject to confidentiality requirements?	✓			
LGAN	Do final communications of engagement results contain, where appropriate, the internal auditor's opinions and/or conclusions, building up to the annual internal audit opinion on the control environment?	✓			
	When an opinion or conclusion is issued, are the expectations of senior management the board and other	✓			

stakeholders taken into account?				
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Ref	Conformance with the Standard	Y	P	N	Evidence
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	When an opinion or conclusion is issued, is it supported by sufficient, reliable, relevant and useful information?	✓			
	Where appropriate, do engagement communications acknowledge satisfactory performance of the activity in question?	✓			
	When engagement results have been released to parties outside of the organisation, does the communication include limitations on the distribution and use of the results?	✓			
LGAN	If the CAE has been required to provide assurance to other partnership organisations, has he or she also demonstrated that their fundamental responsibility is to the management of the organisation to which they are obliged to provide internal audit services?				
	2420 Quality of Communications				
	Are communications:				
	a) Accurate?	✓			
	b) Objective?	✓			
	c) Clear?	✓			
	d) Concise?	✓			
	e) Constructive?	✓			
	f) Complete?	✓			
	g) Timely?	✓			
	2421 Errors and Omissions				
	If a final communication has contained a significant error or omission, did the CAE communicate the corrected information to all parties who received the original communication?				

Ref	Conformance with the Standard	Y	P	N	Evidence
	2430 Use of 'Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing'				
	Do internal auditors report that engagements are 'conducted in conformance with the OSIAS' only if the results of the QAIP support such a statement?				
	2431 Engagement Disclosure of Non-conformance				
	Where any non-conformance with the PSIAS has impacted on a specific engagement, do the communication of the results disclose the following: a) The principle or rule of conduct of the Code of Ethics or Standard(s) with which full conformance was not achieved? b) The reason(s) for non-conformance? c) The impact of non-conformance on the engagement and the engagement results?				
	2440 Disseminating Results				
	Has the CAE determined the circulation of audit reports within the organisation, bearing in mind confidentiality and legislative requirements?	✓			
	Has the CAE communicated engagement results to all appropriate parties?	✓			
	Before releasing engagement results to parties outside the organisation, did the CAE: a) Assess the potential risk to the organisation? b) Consult with senior management and/or counsel as appropriate? c) Control dissemination by restricting the use of the	✓ ✓ ✓			

	results?				
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Ref	Conformance with the Standard	Y	P	N	Evidence
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	Where any significant governance, risk management and control issues were identified during consulting engagements, were these communicated to senior management and the board?				
	2450 Overall Opinion				
	Has the CAE delivered an annual internal audit opinion?	✓			
	Does the internal audit opinion conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control?	✓			
	Does the annual internal audit opinion take into account the expectations of senior management, the board and the other stakeholders?	✓			
	Is the annual internal audit opinion supported by sufficient, reliable, relevant and useful information?	✓			
	Does the communication identify the following:				
	a) The scope of the opinion, including the time period to which the opinion relates?	✓			
	b) Any scope limitations?	✓			
	c) The consideration of all related projects including the reliance on other assurance providers?	✓			
	d) The risk or control framework or other criteria used as a basis for the overall opinion?	✓			
	Where a qualified or unfavourable annual internal audit opinion is given are the reasons for that opinion stated?	✓			
	Has the CAE delivered an annual report that can be used by the organisation to inform its governance statement?	✓			
	Does the annual report incorporate the following:				
	a) The annual internal audit opinion?	✓			

LGAN	b) A summary of the work that supports the opinion?	✓			
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Ref	Conformance with the Standard	Y	P	N	Evidence
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LGAN	c) A disclosure of any qualifications to the opinion?	✓			
	d) The reasons for any qualifications to the opinion?	✓			
	e) A disclosure of any impairments or restriction in scope?	✓			
	f) A comparison or work actually carried out with the work planned?	✓			
	g) A statement on the conformance with the PSIAS?	✓			
	h) The results of the QAIP?				
	i) Progress against any improvement plans resulting from the QAIP?	✓			
	j) A summary of the performance of internal audit activity against its performance measures and targets?	✓			
	k) Any other issues that the CAE judges is relevant to the preparation of the governance statement?	✓			

4.6	2500 Monitoring Progress				
	Has the CAE established a process to monitor and follow up management actions to ensure that they have been effectively implemented or that senior management have accepted the risk of not taking the action?	✓			
	Where issues have changed during the follow-up process, has the CAE considered revising the internal audit opinion?	✓			
	Do the results of monitoring management actions inform the risk-based planning of future audit work?	✓			

Ref	Conformance with the Standard	Y	P	N	Evidence
	Does the internal audit activity monitor the results of consulting engagements as agreed with the client?	✓			
4.7	2600 Communicating the Acceptance of Risks				
	If the CAE has concluded that management has accepted a level of risk that may be unacceptable to the organisation, has he or she discussed the matter with senior management?	✓			
	If, after discussions with senior management, the CAE continues to conclude that the level of risk may be unacceptable to the organisation, has he or she communicated the situation to the board?	✓			

Internal Audit – Public Sector Internal Audit Standards Quality Assurance & Improvement Programme



Quality Assurance Issues for Conformance with the Standards

APPENDIX 2

Area of Consideration	Comment / Evidence	Action / Responsibility / Timescale
Is there a quality assurance process in place to manage and maintain on-going development of internal audit.	A formal assessment process exists and includes views of the auditee on completion of the work. This feeds in to the on-going review and development on the service including any issues that could highlight potential training needs for team members. This is managed by the Head of Audit & Investigations.	The process is subject to review in its own right to ensure that it continues to meet the needs of the service and standards. Head of Audit & Investigations On-going – regularly monitored and updated
Has a self-assessment of the standards been carried out by a qualified competent person?	The Head of Audit & Investigations carried out the self-assessment and is appropriately experienced and is qualified to do so.	The self-assessment is subject to annual review to ensure any changes in circumstances are identified and reflected in the QAIP. Head of Audit & Investigations Next review to be completed by March 2017
Has an external assessment of the standards been carried out by a qualified competent person(s)?	No, but this is currently being considered in terms of approach and how this will be achieved. See improvement programme below for details.	The standards must be externally assessed at least once every 5 years. See improvement programme below for details.

Elements of Standards that are Partially Compliant or Not Yet Compliant – Improvement Programme

PSIAs Ref	Conformance with the Standard	Y	P	N	Comment / Evidence	Action / Responsibility / Timescale	Status Update
3.2 1100	Is feedback sought from the chair of the audit committee for the CAE's performance appraisal?			N	This is not part of the current Hyndburn PDR programme	The Chair and Audit Committee have the ability to comment about performance as and when they see fit – however, this sits outside the PDR programme.	Open This will remain outstanding and will be monitored by the Head of Audit & Investigations. However, this presents low

							residual risk as the Committee can still comment outside the PDR process
3.2 1130	Have internal auditors assessed specific operations for which they have been responsible within the previous year?			N	This should never be yes in order to be in conformance. However, it is included here as it shows as no which infers we do not comply on this point.	No action necessary – see comment.	Closed This will continue to be monitored but should remain as no, which shows conformance.
3.2 1130	Have any instances been discovered where an internal auditor has used information obtained during the course of duties for personal gain?			N	This should never be yes in order to be in conformance. However, it is included here as it shows as no which infers we do not comply on this point.	No action necessary – see comment.	Closed This will continue to be monitored but should remain as no, which shows conformance.
3.4 1300	Has the CAE developed a Quality Assurance and Improvement Programme (QAIP) that covers all aspects of the internal audit activity and enables conformance with all aspects of the PSiAs to be evaluated	Y			The Head of Audit & Investigations has developed both QAIP and monitoring ethos for it. Following Audit Committee in March 2014 the status was updated from Partial to Yes.	The initial QAIP and background surrounding it discussed at March 2014 Audit Committee The Head of Audit & Investigations monitors the QAIP together with the PSiAs as a whole. Updates of this on-going review will be brought to Audit Committee at least once each financial year.	Open The status remains open because it is subject to annual review.
3.4 1300	Does the QAIP include both internal and external assessments?		P		An external assessment has not yet taken place. The Head of Audit & Investigations has conducted an internal self-assessment but this area is not complete until after the first external assessment is complete. The status has been moved to Partial as the self-	An external assessment of conformance to PSiAs must have taken place by March 2018. Head of Audit & Investigations During 2015/16 agreement has been reached by 9 of the Lancashire Heads of Audit to	Open The process is being finalised with discussions taking place. The process should be finalised in Summer 2016.

					assessment process is in place and subject to ongoing review.	participate in a Peer Review External Assessment process which in itself will conform to the Standards. Further information will be presented to both Board and Audit Committee during 2016/17	
3.4 1311	Are the periodic self-assessments or assessments carried out by people external to the internal audit activity undertaken by those with a sufficient knowledge of internal audit practices		P		Only internal self-assessments have taken place so far. However, the Head of Audit & Investigations is qualified to carry out such a self-assessment. Full compliance with this element of the PSiAs will only be possible after an external assessment has taken place.	Internal self-assessment subject to on-going review. External assessment process being developed with other Lancashire Districts. Head of Audit & Investigations	Open Will remain as partially compliant until the external assessment is carried out.
3.4 1312	Has the CAE discussed the proposed form of the external assessment and the qualifications and independence of the assessor or assessment team with the board		P		Whilst it has been decided that a Peer Review format of External Assessment will take place this cannot be done until further details and clarification has been agreed surrounding the process itself.	Once a decision has been made and discussed with the Deputy Chief Executive, Resources, this will then be presented to the Board (i.e. Corporate Management Team) and then Audit Committee. Head of Audit & Investigations in conjunction with Deputy Chief Executive. Will completed within agreed deadline for completion on an external assessment – by March 2018	Open Will not be compliant until details of the Peer Review external assessment has been determined, agreed and presented to the Board and Audit Committee.
3.4 1312	Has the CAE agreed the scope of the external assessment with an appropriate sponsor, such as the Chair of the Audit			N	This cannot be done until the full details and format of the Peer Review process have	Once this is known and has been discussed with the Deputy Chief Executive, this	Open Will not be compliant until agreed and

	Committee, the CFO or the Chief Executive?				been agreed between the 10 Lancashire Authorities.	will then be presented to the Board (i.e. Corporate Management Team) and then Audit Committee and a sponsor agreed. Head of Audit & Investigations in conjunction with Deputy Chief Executive, Resources. Will be completed within agreed deadline for completion on an external assessment – by March 2018	presented to the Board and the sponsor is agreed.
3.4 1312	Has the CAE agreed the scope of the external assessment with the external assessor or assessment team?			N	This cannot be done until the full details and format of the Peer Review process have been agreed between the 10 Lancashire Authorities.	Once the detail of the external assessment has been agreed and sponsor identified this will then take place. Head of Audit & Investigations in conjunction with Deputy Chief Executive, Resources. Will completed within agreed deadline for completion on an external assessment – by March 2018.	Open Will not be compliant until the detail of the external assessment has been agreed and presented to the Board and the sponsor is agreed.
4.3 2210	Have internal auditors carried out a preliminary risk assessment of the activity under review?		P		Consideration is given to known risks published within the risk registers and risks affecting the area are discussed with the auditee. However this is currently not in a formal risk assessment document.	This is partially compliant as risk is always considered as part of the audit engagement, however, the recording process will be reviewed and updated to better reflect this. Head of Audit & Investigations in conjunction with the Senior Auditor	Open This will be addressed by the review of process and documentation being carried out by the Head of Audit & Investigations and the Senior Auditor

						Complete by 31 March 2017	
4.3 2210	Do the engagement objectives reflect the results of the preliminary risk assessment that has been carried out?		P		The engagement objectives do take into consideration the risk issues but this process is not shown in a formal risk assessment document.	This is partially compliant as risk is always considered as part of the audit engagement, however, the recording process will be reviewed and updated to better reflect this. Head of Audit & Investigations in conjunction with the Senior Auditor This is under review and will be updated in 2016/17	Open This will be addressed by the review of process and documentation being carried out by the Head of Audit & Investigations and the Senior Auditor
4.3 2210	If the value for money criteria have been referred to, has the use of all the organisation's main types of resources been considered including money, people and assets?		P		Consideration is given to the varying types of resources where applicable in an audit engagement but this may not be a formal value for money review.	This would be included if a value for money review. Head of Audit & Investigations in conjunction with the Senior Auditor. On-going	Open This will remain outstanding and will be monitored by the Head of Audit & Investigations.

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Agenda Item 6.

REPORT TO:	Audit Committee		
DATE:	27 June 2016		
PORTFOLIO:	Cllr Gareth Molineux - Resources		
REPORT AUTHOR:	Mark Beard – Head of Audit & Investigations		
TITLE OF REPORT:	AUDIT REPORTS & KEY ISSUES – PROGRESS REPORT FOR THE PERIOD APRIL – JUNE 2016		
EXEMPT REPORT (Local Government Act 1972, Schedule 12A)	No	Not applicable	
KEY DECISION:	No	If yes, date of publication:	

1. Purpose of Report

- 1.1 To inform members of the Audit Reports issued during the period April – June 2016 and bring to the attention of the Committee what the key issues were.

2. Recommendations

- 2.1 I recommend that Audit Committee:
➤ notes the content of this report for informational purposes.

3. Reasons for Recommendations and Background

- 3.1 This report covers the period April to June 2016 with the audit areas and any key issues detailed at Appendix 1.
- 3.2 Members should be aware that the number of audit reports that are issued each quarter is subject to variation dependent on the size of the audit and any non-routine audit work, such as investigations, that the Team may be involved in. Therefore, for the purpose of the quarterly reporting, only the audit reports fully completed, issued and agreed will be included.
- 3.3 Any investigations that may be carried out will not be included as a matter of routine in this report, particularly if they relate to a specific individual or individuals.
- 3.4 There is a target of 98% of the audit plan to be completed by the end of the current financial year in terms of audit days completed. As the audit team complete timesheets

which then feed into the audit plan, it is possible to state the progress to date and the projected end of year position if that date is extrapolated out. Therefore:-

Position as at end of May 2016 = 14.94% of the plan completed
 Projected out-turn position for 2016/17 = 89.67% of the plan completed

3.5 The position at the end of February 2016 can be broken down as follows:-

Month	% of the Plan Completed that Month
April 2015	8.30%
May 2015	6.64%

3.6 The projected out-turn position for the year is based on the 2 month period April 2016 to May 2016 and assumes that the output remains at a constant during the remaining 10 months of 2016/17. Clearly at such an early stage in the financial year the projected out-turn is only an indication and is unlikely to be the actual final out-turn position with 10 months of work still to be carried out and recorded.

4. **Alternative Options considered and Reasons for Rejection**

4.1 Not applicable as the report is for informational purposes only.

5. **Consultations**

5.1 No consultations required as this report is based on data and information held by the audit team based on the work completed.

6. **Implications**

Financial implications (including any future financial commitments for the Council)	There are no financial implications arising from this report
Legal and human rights implications	There are legal or human rights implications arising from this report.
Assessment of risk	Risks are taken into consideration during the audit process itself, there is no direct risk implication from this report.
Equality and diversity implications <i>A Customer First Analysis should be completed in relation to policy decisions and should be attached as an appendix to the report.</i>	This report is produced for information awareness of the progress of the Audit Team against the annual Internal Audit Plan. The Audit Planning process has had an equality impact assessment which remains valid and it is not necessary to update this with a

	Customer First Analysis at this time. The individual audit assignments may, in some cases, feed into the needs of equality and diversity issues within individual service areas of the Council.
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7. **Local Government (Access to Information) Act 1985:**
List of Background Papers

7.1 No background papers were necessary for the preparation of this report.

8. **Freedom of Information**

8.1 The report does not contain exempt information under the Local Government Act 1972, Schedule 12A and all information can be disclosed under the Freedom of Information Act 2000.

APPENDIX 1

AUDIT COMMITTEE – 27th June 2016

Summary of the main issues arising from audits carried out April – June 2016

Members Allowances:-

Audit Assurance Opinion Issued:- Substantial assurance

The work undertaken showed there is a generally sound system of internal control designed to meet the service objectives, and controls are generally being applied consistently. However, some weaknesses in associated policy awareness can put the achievement of particular objectives at risk.

- The audit found a small number of omissions on basic allowance forms, none of which prevented the correct allowance being paid, however, it was agreed that forms would be fully completed.

Refundable Allotment Deposits:-

Audit Assurance Opinion Issued:- Comprehensive assurance

The work undertaken showed a sound system of internal control which is designed to meet the service objectives, in addition the work carried out showed controls are consistently being applied.

- The audit found that on occasion an external company had to be used to carry out clearance work on some allotments with extensive debris prior to them being able to be re-let. The Allotment Officer was reminded of the need for such work to be in compliance with the Contracts Procedure Rules in terms of the number of quotes obtained.

Health & Safety:-

Audit Assurance Opinion Issued:- Comprehensive assurance

The work undertaken showed a sound system of internal control which is designed to meet the service objectives, in addition the work carried out showed controls are consistently being applied.

- No issues arising from the audit.

Asset Management:-

Audit Assurance Opinion Issued:- Comprehensive assurance

The work undertaken showed a sound system of internal control which is designed to meet the service objectives, in addition the work carried out showed controls are consistently being applied.

- No issues arising from the audit.

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Agenda Item 7.

REPORT TO:	Audit Committee		
DATE:	27 June 2016		
PORTFOLIO:	Options		
REPORT AUTHOR:	Stephen Brindle Head of Accountancy		
TITLE OF REPORT:	Accounting Policies and Public Inspection of the Accounts		
EXEMPT REPORT (Local Government Act 1972, Schedule 12A)	Options	Not applicable	
KEY DECISION:	Options	If yes, date of publication:	

1. Purpose of Report

1.1 To request approval from the Committee of the accounting principles which are used to prepare the statement of accounts for the financial year 2015/16.

1.2 To inform the Committee of the revised arrangements for the public inspection of the accounts.

2. Recommendations

2.1 That the Committee approves the accounting principles on which the 2015/16 accounts are prepared

2.2 That the Committee notes the new rights of public inspection.

3. Reasons for Recommendations and Background

3.1 Legislative Framework

The Statements of Accounts are prepared in accordance with the Code of Practice on Local Authority Accounting known as 'The Code'.

The Code is based on approved accounting standards issued by the International Financial Reporting Standards (IFRS); it also draws on approved accounting standards issued by the International Public Sector Accounting Standards Board and the UK Accounting Standards Board where relevant.

3.2 Accounting Policy

The accounting policies determine the treatment applied to transactions during the financial year and in the preparation of the statement of accounts at the year end. They represent the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements. They are published within the Statement of Accounts in line with the Code guidance.

The adoption of appropriate accounting policies is therefore important because it determines the way the Statement of Accounts are prepared.

3.3 Changes in Accounting Policy

The accounting policies under which the Statement of Accounts 2015/16 have been prepared are in Appendix A.

There are no significant changes from those adopted in 2014/15 except for the use of fair value which is explained in para 3.4.

3.4 Fair Value Measurement

The 2015/16 Code introduced a new section to reflect the adoption of IFRS 13 Fair Value Measurement; it requires local authorities to use fair value to measure its assets and liabilities in accordance with a defined set of rules. Fair value measurement applies to a number of assets and liabilities but the largest component for the Council is property, plant and equipment and within that the relevant part is 'surplus assets'.

Surplus assets are assets that are not being used to deliver services and are not classified as investment properties or non-current assets held for sale.

Fair value is the price that would be received when selling an asset in an orderly transaction between market participants. The important point is, it is a market based measurement not an authority specific measurement.

In preparation of the 2015/16 Accounts fair value measurement has been used by the valuers.

3.5 Public Inspection of the Statement of Accounts

The Accounts and Audit Regulations 2015 set out the requirements for publishing the Council's accounts and the public's right of inspection. They have changed for this year.

The regulations now say the public period of inspection is thirty working days and in 2016 must include the first ten working days of July i.e. it must include 1st to 14th July. The accounts can only be approved after the inspection period has finished.

Together with the draft accounts the Council has to publish an annual governance statement, a narrative statement and a statement setting out the public rights of inspection.

The requirement to publish means placing the documents on the Council's website.

4. Alternative Options considered and Reasons for Rejection

4.1 None applicable.

5. Consultations

5.1 N/A

6. Implications

Financial implications (including any future financial commitments for the Council)	As described in the report
Legal and human rights implications	No legal implications arising directly from the report.
Assessment of risk	No new risk management implications
Equality and diversity implications <i>A Customer First Analysis should be completed in relation to policy decisions and should be attached as an appendix to the report.</i>	None applicable

7. Local Government (Access to Information) Act 1985: List of Background Papers

7.1 *Copies of documents included in this list must be open to inspection and, in the case of reports to Cabinet, must be published on the website.*

8. Freedom of Information

8.1 The report does not contain exempt information under the Local Government Act 1972, Schedule 12A and all information can be disclosed under the Freedom of Information Act 2000.

ACCOUNTING POLICIES**i. General Principles**

The Statement of Accounts summarises the Authority's transactions for 2015/16 financial year and its position at the year-end 31st March 2016. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations (2015), which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and the Service Reporting Code of Practice 2015/16, supported by the International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

ii. Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- 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.
- 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.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories in the Balance Sheet.
- Expenses in relation to services received (including services as provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of effective interest for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

iii. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months or less from the date of acquisition and are readily convertible to known amounts of cash with insignificant risk of change in value.

In the cash flow statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

iv. Exceptional Items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

v. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance.

Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

vi. Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

- Depreciation attributable to the assets used by the relevant service.
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.
- Amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement.

Depreciation, revaluation and impairment losses and amortisation are replaced by a Minimum Revenue Provision calculated on a prudent basis by the Council in accordance with statutory guidance. This is achieved through an adjusting transaction between the General Fund Balance and the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

vii. Employee Benefits

Benefits Payable During Employment

Short term employee benefits are those due to be settled within 12 months of the year end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits e.g. cars for current employees and are recognised as an expense for the services in the year which employees render service to the authority.

An accrual is made for the cost of holiday entitlements (or any form of leave e.g. time of in lieu) earned by employees but not taken by the year end which employees can carry forward into the next financial

year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit.

The accrual is charged to the Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves statement so that holiday benefits are charged to the revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on accruals basis to the appropriate service or, where applicable, to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement at the earlier of when the Council can no longer withdraw the offer of those benefits or when the council recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pension Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at year end.

Post Employment Benefits

Employees of the Council are eligible to join the Local Government Pension Scheme administered by Lancashire County Council. The scheme provides defined benefits to members (retirement lump sums and pensions) earned as employees work for the Council.

The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Lancashire County Pension Scheme attributable to Hyndburn Borough Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of xx% (3.2% 31st March 2015) based on the indicative rate of return on high quality (AA rated) corporate bonds.
- The assets of the Lancashire County Council Pension Fund attributable to Hyndburn Borough Council are included in the Balance Sheet at their fair value:
 - Quoted securities – current bid price
 - Unquoted securities – professional estimate
 - Utilised securities – current bid price
 - Property – market value
- The change in the Net Pensions Liability is analysed into the following components:
Service cost comprising:

- Current Service Cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employee worked.
- Past Service Cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
- Net Interest on The Net Defined Benefit Liability (Asset) i.e. net interest expense for the authority – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – that is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

Remeasurements comprising:

- The Return on Plan Assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as other Comprehensive Income and Expenditure
- Actuarial Gains and Losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pension Reserve as Other Comprehensive Income and Expenditure

Contributions paid to the Lancashire County Pension Fund – cash paid as employer’s contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at year end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

viii. Events After The Reporting Period

Events after the balance sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of event can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events.
- Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

ix. Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The term 'financial instrument' covers both financial assets and financial liabilities; and includes the most straightforward assets and liabilities e.g. debtors, period end balances and creditor balances and the most complex e.g. derivatives.

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Financial Assets

Financial assets are classified in two types:

- Loans and receivables – assets that have fixed and determinable payments but are not quoted in a active market
- Available for sale assets – assets that have a quoted market price and / or do not have fixed or determinable payments.

Loans and Receivables

Loans and receivables are recognised in the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

However, the Council has made loans to an organisation at less than market rates (soft loans). When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable from the voluntary organisation, with the difference serving to increase the amortised cost of the loan in the balance sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

x. Government Grants and Contributions

Whether paid on account, by instalments or in arrears, 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.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the balance sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

xi. Heritage Assets

Tangible Heritage Assets (described in this summary of significant accounting policies as heritage assets)

The Council's heritage assets are held in the Haworth Art Gallery. The Gallery has four collections of heritage assets which are held in support of the primary objective of the museum i.e. maximise the recognition, appreciation and use of Haworth Art Gallery and its unique Tiffany Glass collection as a historic and contemporary art, education, leisure and tourism asset of local, regional and national importance.

Heritage assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on property, plant and equipment. However some of the measurement rules are relaxed in relation to heritage assets as detailed below.

The Tiffany Glass Collection

The Tiffany Glass collection includes handmade blown glass vases, glass tiles, jewels and mosaics; as well as pottery, metalwork and enamel items.

The items are reported in the Balance Sheet at insurance valuation which is based on market values. The insurance valuations are updated periodically.

The Art Collection

The art collection includes paintings (both oil and watercolour) as well as etchings, book illustrations and chromolithographs. It is reported in the Balance Sheet at market value.

Numismatics Collection

The collection comprises coins, medals and tokens. The medals show portraits of famous people through history, while the trade tokens have a strong local connection.

The items are reported in the Balance Sheet at insurance valuation which is based on market values. The insurance valuations are updated periodically.

Community Collection

The items are reported in the Balance Sheet at insurance valuation which is based on market values. The insurance valuations are updated periodically.

The date of the latest valuation of Heritage Assets undertaken by Eric Knowles Antiquarian Services is January 2011.

Assets within all four collections are deemed to have indeterminate lives and, in the case of the glass and art collections, a high residual value; hence the Council does not consider it appropriate to charge depreciation.

All four collections are relatively static and acquisitions and donations are rare. The Gallery is accredited by the Arts Council of Great Britain which means it has a statement of purpose, an acquisition and disposals policy, a guide to the documentation relating to the collections and a plan for the collections' care and conservation.

Civic Regalia

The Council also has a collection of civic regalia which is held at the Town Hall. It was last valued for insurance purposes by George Banks, goldsmith, in March 2010.

xii. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council e.g. software licences are capitalised when it is expected that the future economic benefits or service potential will flow from the intangible asset to the Council.

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods and services.

Intangible assets are initially measured at cost. Amounts are only re-valued where the fair value of an asset can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost.

The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sales proceeds greater than £10,000) to the Capital Receipts Revenue Account.

xiii. Inventories

Inventories are held in the Balance Sheet at purchase price. The cost of inventories is assigned using the First In First Out costing formula.

xiv. Investment Property

Investment properties are those that are used solely to earn rentals and / or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but revalued annually according to market conditions at year end. Gains and losses on revaluation are posted to the financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

xv. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately.

The Council as Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception. The asset recognised is matched by a liability for the obligation to pay the lessor. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

A charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and

A finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, plant and equipment recognised under finance leases are accounted for using the policies applied generally to such assets.

The Council is not required to raise Council Tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from the use of the leased property, plant or equipment.

The Council as Lessor

Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- A charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- Finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

xvi. Overheads and Support Services

The cost of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the Cipfa Service Reporting Code of Practice 2015/16 (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multi-functional, democratic organisation.
- Non-distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement as part of Net Expenditure on Continuing Service.

xvii. Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on accruals basis, provided it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably.

Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (e.g. repairs and maintenance) is charged to the Comprehensive Income and Expenditure Statement as it is incurred.

Measurement

Assets are initially measured at cost, comprising the purchase price and any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by the management.

Assets are then carried in the Balance Sheet using the following measurement bases:

- Infrastructure, community assets and assets under construction – depreciated historical cost
- Surplus Assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective
- All other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV)

Where there is no market based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure their carrying amount is not materially different from their fair value at the year end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains.

Where decreases in value are identified, they are accounted for by:

- Where there is a balance for gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line in the Comprehensive Income and Expenditure Statement

The Revaluation Reserve contains revaluation gains recognised since April 1st 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

Assets are assessed at year end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)

Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line in the Comprehensive Income and Expenditure Statement

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all property, plant and equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

The Council operates a straight line method for depreciation over the useful economic life of the asset as follows:

Asset	Period (Years)
Operational Buildings	30*
Non-Operational Buildings	30*
Community Assets	5 - 50
Infrastructure	10
Vehicles & Plant	2-10
Surplus Assets –Housing Market Renewal Properties	15

**As part of the Council’s five year rolling revaluation programme, a revised estimated useful life of the asset (if applicable) may be applied, up to a maximum of 60 years.*

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale.

Assets Held for Sale are assets where the:

- Asset is immediately available for sale
- Sale is highly probable
- Asset is actively marketed
- Sale is expected to be completed within twelve months

The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised

had they not been classified as Held for Sale, and their recoverable amount at that date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

Disposals

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals, if any, are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated on the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's capital financing requirement. Receipts are appropriated to the Capital Receipts Reserve in the Movement in Reserves Statement.

The written off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

xviii. Provisions, Contingent Liabilities and Contingent Assets

Provisions are made when an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential and a reliable estimation can be made of the amount of the obligation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the Council's control. Contingent liabilities can also arise in circumstances where a provision would otherwise be made but either it is not sufficiently certain that the event will take place or the obligation cannot be measured reliably.

A contingent asset arises where an event has taken place that gives the Council a possible asset but whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent liabilities and assets are not recognised in the Balance Sheet but are disclosed in a note to the accounts.

xix. Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts from the General Fund Balance in the Movements in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the surplus or deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, retirement and employee benefits. These do not represent usable resources for the Council, and include the capital adjustment account, revaluation reserve and pensions reserve.

xx. Revenue Expenditure Funded From Capital Under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year.

Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

xxi. VAT

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. Vat receivable is excluded from income.

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Agenda Item 8.

REPORT TO:	Audit Committee		
DATE:	27 June 2016		
PORTFOLIO:	Cllr Gareth Molineux - Resources		
REPORT AUTHOR:	Stephen Brindle Head of Accountancy		
TITLE OF REPORT:	Capital Outturn Report 201/16		
EXEMPT REPORT (Local Government Act 1972, Schedule 12A)	Options	Not applicable	
KEY DECISION:	Options	If yes, date of publication:	

1. Purpose of Report

1.1 The report sets out the financial spend on the Council's capital projects for 2015/16. It includes a proposed list of changes to the 2016/17 Capital Programme i.e. slippage from the previous year. The slippage will be funded from the amounts not spent but authorised in 2015/16.

2. Recommendations

2.1 That the Committee approves the capital items of slippage from the 2015/16 programme.

3. Reasons for Recommendations and Background

3.1 Appendix A is the Cabinet report 8th June 2016 which sets out the background and detail to the capital programme. It explains the circumstances surrounding the slippage. The report was approved by Cabinet and now under the Constitution the capital slippage of £998,328 requires Audit Committee approval. Approval will see the capital schemes continue in 2016/17.

4. Alternative Options considered and Reasons for Rejection

4.1 None applicable.

5. Consultations

5.1 N/A

6. Implications

Financial implications (including any future financial commitments for the Council)	As described in the report
Legal and human rights implications	No legal implications arising directly from the report.
Assessment of risk	No new risk management implications
Equality and diversity implications <i>A Customer First Analysis should be completed in relation to policy decisions and should be attached as an appendix to the report.</i>	None applicable

**7. Local Government (Access to Information) Act 1985:
List of Background Papers**

7.1 [Capital Programme 2015/16](#)

8. Freedom of Information

8.1 The report does not contain exempt information under the Local Government Act 1972, Schedule 12A and all information can be disclosed under the Freedom of Information Act 2000.

REPORT TO : Cabinet
DATE : 8th June 2016
Report of Cllr Gareth Molineux
Portfolio Holder : Resources

PREPARED BY : Joe McIntyre
Deputy Chief Executive

Capital Report Outturn 2015/16

Purpose of the Report

The Report informs Cabinet of the financial spend on Capital Projects during 2015/16. The full detail of expenditure is shown at Appendix 1 and the proposed list of changes to the 2016/17 Capital Programme is shown at Appendix 2. These will be funded from the amounts not spent but authorised in 2015/16.

Figures reported are the latest available and may be subject to change in finalising the draft accounts or after the conclusion of the final accounts audit. If the figures change significantly from those contained in this report an update on the overall position will be made to Cabinet in October 2016 at the end of the audit period.

Recommendations

- Cabinet notes the report and asks the Audit Committee to approve the Slippage items at Appendix 2.

Summary

The detail of the Capital Programme for 2015/16 is shown at Appendix 1.

The outturn position for 2015/16 on Capital Expenditure shows a twelfth year of major capital investment by the Council. The overall investment by the Council in the year was just over £3.2m against an authorised maximum budget of £11.6m. Net Savings of £166,000 have been achieved against the Budget which represent 1.5% of the overall total. There were no major overspends reported during the year.

The Council has received applications for net slippage of £998,328 comprising £4.6m of expenditure schemes from 2015/16 to 2016/17 and £3.6m of income. These will be approved by the Audit Committee in June 2016. The list of schemes that have applied for slippage is given at Appendix 2. Overspends occurred on a few schemes and were small in overall value terms and had no overall impact on the overall financial position as the value of overspends was significantly outweighed by the savings generated within the overall programme this year.

We maintained our prudent approach to Treasury Management during the year. The indicators at Table 3 demonstrate small positive movements between last year's position and the outturn for this year.

Detail

The capital programme for 2015/16 was approved by the Council on the 26th February 2015. The programme for 2015/16 outlined continuing major investment in the local community and in the Council's key priorities. The Council has spent just over £3.2m million on a wide variety of projects over the last 12 months. This expenditure builds upon the record levels of investment in previous years made by the Council.

The experience in managing a rapidly expanding capital programme over the last decade ensured the overall programme was managed within budget. There were no significant overspend within the year. (defined as over £10,000 or over 10% of a Project's Budget). The expected overspends here were quickly identified during the year and it was possible for authority to be given to continue despite the increased costs, as savings in excess of the additional costs had already been identified. Cost pressures across all projects amounted to under £34,000 for the year and this was easily accommodated by overall savings of £166,000. Higham Sport Pitches reports a £8,000 overspend on the year in addition to a £4,000 overspend at the previous year-end and the necessary work is still yet to be completed. Further expenditure is therefore expected during 2016/17 and this will be reported as an overspend in next year's report.

Close monitoring of expenditure within Accountancy Services and regular reporting to the Capital Programme Working Group, Corporate Management Team and Cabinet ensures proper control over expenditure is actively in place and the dangers of overruns in expenditure are largely de-risked with the Council having the ability to either contain any overspends from savings generated elsewhere on capital projects or place a number of projects on hold until the following year, should this prove necessary.

The Table below shows the spend by major categories of expenditure.

Table 1	Spend by Area	£000
	Housing Projects	1,144
	Community & Leisure Projects	1,509
	Internal Projects	559
	Total	3,212

In line with the Council's overall financial strategy and its commitment to bring down its revenue spend over future years, the Council set its capital programme on the premise of avoiding additional borrowing and thereby continuing to avoid additional interest charges associated with this course of action. This strategy continues forward from previous years and ensures the capital programme is aligned to the overall financial objectives of the Council.

The Capital Programme was therefore funded for the tenth consecutive year using only available internal resources or external funding. This approach ensures that additional financial burdens are not placed on local taxpayers into the future. Our approach also seeks to maximise the Council's leverage position and gear as much expenditure as possible from external sources into the Borough.

Table 2 Funding Sources

Table 2 below, provides the details of the mix between the different types of funding sources used to finance the capital programme in 2015/16. Despite the availability of external funding, it is a key priority of the Council to ensure maximum value for money is achieved when spending these sums and we look to gear the funding whenever possible by cross matching it with partners, and other funding bodies to achieve maximum impact.

Capital Expenditure Funding Sources for 2015/16	
Section 106 composite	£ 55,203
HMR Funding	£ 16,671
Clusters of Empty Homes Fund	£ 656,931
Specified Capital Grants & Contributions	£ 511,302
PRG contributions to Capital	£ 1,576
Direct Revenue Funding - various	£ 54,610
Cabinet Action Fund	-£ 46
Transitional Grant - THI	£ -
Revenue - Invest to Save	£ 117,027
Revenue - Revenue Reserve Underspends	£ 73,886
Council Tax Freeze Grant	£ 213,507
Capitalisation Fund Grant	£ -
Efficiency Support Grant	£ 541,606
New Homes Bonus Grant	£ 234,745
Disabled Facility Grants	£ 432,183
	£ 2,909,201
	£ -
Lancs Environmental Fund - Debtor	£ 60,881
Forestry Commission - Debtor	£ 70,111
Lottery - Debtor	£ 111,312
Windfall - Debtor	£ 2,000
OLEV - Debtor	-£ 137
Football Foundation - Debtor	£ 58,861
Total	£ 3,212,229

The Government in response to the worldwide economic recession has severely curtailed money made available to Local Government for capital investment. Future funding of capital expenditure will now have to rely upon existing Capital reserves, the generation of capital receipts, accessing grants from 3rd parties and transfers of funding from Revenue.

Our funding strategy has avoided the need to reduce the Council's Capital Receipts Unapplied Account during the year and the balance remains at £1.8m to fund future years' capital expenditure. Our current predictions suggest the Council will need to commence funding its capital programme in 2018/19 from purely revenue sources, unless it is able to secure additional capital receipts or external grants over the next 2 years.

The major high spots within the Capital Programme this year were:

- The continuing extensive steps taken to regenerate and improve the housing offer across Hyndburn with £710,000 spent on acquiring and renovating a large number of properties, particularly around Woodnook.
- Over £432,000 spent on assisting those with disabilities, to allow them to continue to live independent lives at home.
- A further £268,000 spent on improvements to Accrington Town Hall to modernise the Ballroom and the facilities in the building to allow the grandest building in the Town Centre to fully function as a venue of choice for a wide variety of civic and private functions and help boost the town centre economy, as part of the proposed £6m major reinvestment into the Town Centre over the next few years.
- Over £450,000 spent on renovating the Stable Block at the Haworth Art Gallery to restore this dilapidated area and create a new facility for the arts and crafts in Hyndburn and boost the leisure offer in the area
- Almost £260,000 spent to improve the Sports facilities across Hyndburn with £148,000 invested to uplift the changing room offer at Hyndburn Sport Centre and the creation of a women's only facility at Great Harwood to encourage exercise take-up and facilitate health improvements in the local population.
- There was also over £86,000 invested to improve our facilities in our cemetery and cremation facilities

In addition a wide range of community projects were undertaken at a local level with play areas developed or upgraded, investments made in energy conservation measures and necessary building work and investment in infrastructure and vehicles undertaken. Further details are provided in Appendix 1.

Permission for Slippage for £4.6m of expenditure and £3.6m of funding has been requested and is detailed at Appendix 2. This will be submitted to the Audit Committee for approval in June 2016. Overall savings on the Capital Programme this year totalled £166,000 which represents 1.5 % of the original budget.

Receipts

In the current economic climate we had anticipated that the generation of receipts would continue the pattern of previous years and remain suppressed and this proved to be the case. However we were able to generate £157,000 of general capital receipts from the sale of land during the year and £57,000 of earmarked receipts (mainly relating to the HMR programme).

This trend, in suppressed sales and value is expected to continue as there is both a lack of developers to make acquisitions and a soft market, making sales at current values unattractive in many cases.

Treasury Management

The year-end figures are provided below at Table 3.

The Capital Financing Requirement was reduced by just over £350,000 compared to the previous year and we have now lowered this figure from £12,255,000 to £10,703,000 in four years. We maintained our Ratio of Financing Costs to Net Revenue Stream at 4% of the Net Revenue Stream and due to our approach to Capital Financing this year the incremental impact on the Capital Investment Decisions on Council Tax was zero indicating that there was no cost to council tax payers from our capital investment decisions this year.

Table 3 Prudential Indicators

	Actual Outturn 2014/15 £'000	Original Indicator Estimate 2015/16 £'000	Latest Estimate 2015/16 £'000	Actual Outturn 2015/16 £'000
Prudential Indicators - Latest Estimate				
Capital Financing Requirement (CFR)	11,058	10,564	10,772	10,703
Estimated Capital Expenditure General Fund	4,191	9,151	10,751	3,161
Ratio of Financing Costs to Net Revenue Stream	4%	4%	4%	4%
Impact of Capital Investment Decisions on the Council Tax	-£3.13	£1.32	£0.00	£0.00

Reasons for Recommendations

Not applicable.

Alternative Options considered and Reasons for Rejection

Not applicable

Implications

Issue	Comments
Financial (including mainstreaming)	As outlined in the report
Legal	Not applicable
Assessment of Risk	There are no additional risks stemming from this report.
Equality	There are no Equality issues stemming from this report
Key Decision	No

Consultations

Not applicable

Links to Corporate Priorities

Priority	Comments
Corporate Governance and Community Leadership	The report deals with the Council's duty to manage its finances and service delivery priorities.
Community Safety	Elements of the report impact on this area as spending decisions.
Housing and the Environment	Elements of the report impact on this area as spending decisions.
Economy and Employment	Elements of the report impact on this area as spending decisions.
Culture and Leisure	Elements of the report impact on this area as spending decisions.
Other priorities with partners: Health and Social Care Education and Lifelong Learning	Elements of the report impact on this area as spending decisions.

Local Government (Access to Information) Act 1985:

Council 26th February 2015

[Capital Programme 2015/16](#)

Freedom of Information

The report does not contain exempt information under the Local Government Act 1972, Schedule 12a and all information can be disclosed under the Freedom of Information Act 2000.

**Capital Programme
2015/16
Variance Analysis**

	Approval		
Scheme	2015/16		
	Gross Amount	Total Expenditure 2015/16	Variance (under) / over
HAG Stables & Motor House	524,498	452,697	(71,801)
Alice Garden	3,162		(3,162)
Haworth Park Events Area	939	304	(635)
West End Play Area	7,362	7,708	346
Milnshaw Park MUGA	75,866	75,866	
Highams Pitch Drainage Scheme	0	7,726	7,726
Spouthouse Woodland	13,029	15,514	2,485
Clayton Forest / Barn St Woods	87,936	87,290	(646)
Woodnook & Rothwell Woodland Imps	55,213	55,938	725
Bullough Park Changing Pavillion	25,000		(25,000)
Interceptor Drainage @ Higham PF	3,200	1,805	(1,395)
Royds St & Woodnook Improvements LNR	35,000	33,997	(1,003)
Forest School & Rothwell Woodland	8,873	7,789	(1,084)
Hyndburn Leisure Centre Artificial Turf Pitch	40,173	31,599	(8,574)
HLC Energy Efficiency Imps PH2 & Mechanical & Electrical Investment	152,857	120,630	(32,227)
HLC Changing Room Development - conversion of squash courts	149,567	148,554	(1,013)
MHLC Health & Toning Facility	112,000	110,830	(1,170)
HLC - Fire Systems Renewal	30,000		(30,000)
HLC External Door & Window Replacement	25,000	24,500	(500)
MHLC Pool Refurb	7,739	7,739	
5 Aside Football Cages - 2016/17	225,000		(225,000)
Clayton Civic Hall	50,000		(50,000)

Technology Refresh (annual replacement programme)	28,121	28,126	5
Inspire Software	7,131	7,055	(76)
Northgate Software System	4,500		(4,500)
Cycle Storage Willows Lane	3,500	3,500	
Acc Town Hall - Fire Alarm Panel Renewal	0	3,878	3,878
Acc Town Hall Improvements	351,107	268,606	(82,501)
Coppice & Arden Hall Improvement	48,742		(48,742)
Accrington Townscape Heritage Initiative	3,000,000		(3,000,000)
Electric Vehicle Rapid Charge Point	0	(1,480)	(1,480)
Aspen Colliery Coke Ovens	11,750	8,062	(3,688)
Cemetery Road Extension	65,000	62,651	(2,349)
Acc Crematorium Internal Refurbishment	17,000	18,566	1,566
Cannon St Cabling	8,452	8,452	
Planned Asset Maintenance	100,000	84,326	(15,674)
Queen Street Bus Shelter	5,852	5,852	
Brake Testing Units	37,000	40,987	3,987
CVMU Diagnostic Equipment	5,680	5,680	
Vehicle Replacement	260,100	154,281	(105,819)
Christmas Decorations Replacement	15,000	14,850	(150)
Allotments Regeneration	7,000	5,782	(1,218)
Local Area Management Capital Improvement Schemes	310,698	60,254	(250,444)
Gatty Park Memorial Square £15k funded from Area Council	12,092	12,276	184
Sports Facility Improvement at Lyndon Playing Fields	500,000		(500,000)
Future Vehicle Replacement Set Aside	50,000	50,000	
Bullough Park Playground Upgrade	55,000		(55,000)
Rhyddings Park Project	1,461,000		(1,461,000)
Development of Norden Playing Fields	280,000		(280,000)
Capitalised Salaries	107,945	65,675	(42,270)
Housing Market Renewal Programme	511,934	16,671	(495,263)
Clearance - Pendle St PH1	383,349	7,005	(376,344)
Disabled Facilities Grant	487,290	432,183	(55,107)

Special Disabled Facilities Adaptations	3,490	439	(3,051)
16 China St Renovation	31,457	1,136	(30,321)
Cluster of Empty Homes Programme	1,275,589	656,931	(618,658)
TOTAL EXPENDITURE ALL SCHEMES	11,078,193	3,212,230	(7,865,963)

Application for Roll Forward Of Capital Programme 2015/16 to 2016/17

	Slippage Exp	Slippage Inc	Slippage Net
Approved Expenditure			
HAG Stables & Motor House	71,801	-63,888	7,913
Clayton Forest / Barn St Woods	646	-646	0
Bullough Park Changing Pavillion	25,000		25,000
Royds St & Woodnook Imps LNR	1,003	-1,003	0
Woodland	1,084	-1,084	0
HLC Energy Efficiency Imps	32,227		32,227
Squash Courts	1,013	-1,013	0
HLC - Fire Systems Renewal	30,000		30,000
5 a-side Football Cages	225,000	-225,000	0
Acc Town Hall Improvements	82,501	-82,501	0
Aspen Colliery Coke Ovens	3,500	-3,500	0
Planned Asset Improvement Programme	15,000		15,000
Allotments Regeneration	461	-231	230
Area Council	248,259		248,259
Sports Facility Imps Lyndon Playing Field	500,000	-425,000	75,000
Bullough Park Playground Upgrade	55,000	-30,000	25,000
Rhyddings Park Project	1,461,000	-1,411,000	50,000
Norden Playing Fields Development	280,000	-205,000	75,000
Transitional Housing Programme	495,263	-495,263	0
Clearance Pendle St	376,344		376,344
Disabled Facilities Grant	55,107	-16,752	38,355
Special Disabled Facilities Adaptations	3,051	-3,051	0
16 China Street Renovation	30,321	-30,321	0
Cluster of Empty Homes Programme	618,658	-618,658	0
TOTAL EXPENDITURE	4,612,239	-3,613,911	998,328

Agenda Item 9.

REPORT TO:		AUDIT COMMITTEE	
DATE:		27 June 2016	
PORTFOLIO:		Cllr Gareth Molineux - Resources	
REPORT AUTHOR:		Stephen Brindle – Head of Accountancy	
TITLE OF REPORT:		Draft Statement of Accounts 2015/16	
EXEMPT REPORT (Local Government Act 1972, Schedule 12A)	Options	Not applicable	
KEY DECISION:	Options	If yes, date of publication:	

1. Purpose of Report

- 1.1 This report sets out the draft Statement of Accounts 2015/16 for Hyndburn Borough Council.

2. Recommendations

- 2.1 The Audit Committee is recommended to note the council's draft statement of Accounts for 2015/16.

3. Reasons for Recommendations and Background

3.1 Background

At the end of each financial year, the Council is required by statute to produce a Statement of Accounts (SoA).

The Code of Practice on Local Authority Accounting in the United Kingdom (The Code) specifies the principles and practices of accounting required to give a 'true and fair' view of the financial position of the Council and its transactions.

The Code prescribes the accounting treatment and disclosures for all normal transactions of a local authority and is based on the following hierarchy of standards.

- International Financial Reporting Standards (IFRS) including International Accounting Standards (IAS) and International Financial Reporting

Interpretations Committee (IFRIC) and Standards Interpretations Committee (SIC) as adopted by the European Union

- International Public Sector Accounting Standards (IPSAS)
- UK Generally Accepted Accounting Practice (GAAP), Financial Reporting Standards (FRS), Statements of Standard Accounting Practice (SSAP) and Urgent Issues Task Force (UITF) Abstracts

3.2 The Council's accounts are subject to scrutiny by its elected Councillors and its internal and external auditors to verify the regulations are being followed.

In addition members of the public have a statutory right to inspect the accounts. The availability of the accounts for inspection is advertised on the Council's website.

3.3 The Council's draft SoA 2015/16 is attached at Appendix A.

In accordance with the Accounts and Audit (England) Regulations 2015 the responsible financial officer, in Hyndburn BC the deputy chief executive, certifies by 30th June that the SoA give a 'true and fair view'.

3.4 Summary of the Accounts

The Council set a revenue budget of £11.489m intended to provide day to day services for the local community. The budget was made up of £12.148m of direct service expenditure balanced by £0.659m of credits from financing activities. It was in line with the medium term financial strategy and produced savings of £0.884m. The main savings were in waste services, planning and transport and corporate governance.

In 2015/16 the Council spent £3.2 million on its capital programme with a net savings £166k against budget.

Major capital projects undertaken by Hyndburn include:

- £710k acquiring and renovating properties particularly around Woodhook
- £450k renovating the Stable Block at Haworth Art Gallery
- £432k assisting those with disabilities to continue to live at home

3.5 Next Steps

The Statement of Accounts and supporting records will be subject to external audit. The audit is due to take place in August 2016. Subject to councillors support here, any subsequent material changes to the accounts will be reported to the Audit Committee in September 2016 should it prove necessary. The accounts will be reconfirmed by the deputy chief executive and signed by the Chair of the Audit Committee.

3.6 Reasons for Recommendations

To seek notification of the Council's Statement of Accounts 2016.

4. Alternative Options considered and Reasons for Rejection

4.1 Not applicable as the report is for information only.

5. Consultations

5.1 Not applicable.

6. Implications

Financial implications (including any future financial commitments for the Council)	None
Legal and human rights implications	None
Assessment of risk	This report should not result in any adverse implications or risk for the Council.
Equality and diversity implications <i>A Customer First Analysis should be completed in relation to policy decisions and should be attached as an appendix to the report.</i>	No part of the report has any implications for any Customer First Analysis.

7. Local Government (Access to Information) Act 1985: List of Background Papers

7.1 Guidance Notes for Practitioners on LA Accounting – 2015/16

The Code of Practice on Local Authority Accounting in the United Kingdom

Local Authority Accounting Panel (LAAP) Bulletin 104 – Closure of the 2014/15 Accounts and Related Matters.

The Accounts and Audit (England) Regulations 2015

8. Freedom of Information

8.1 The report does not contain exempt information under the Local Government Act 1972, Schedule 12A and all information can be disclosed under the Freedom of Information Act 2000.

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HYNDBURN BOROUGH COUNCIL

Statement of Accounts

(UnAudited)

Year Ended 31st March, 2016



HYNDBURN

The place to be
an excellent council

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Narrative Report

An Introduction to Hyndburn

Hyndburn is one of 14 district and unitary councils in Lancashire. It covers 73 square kilometres between Burnley and Blackburn. There are over 80,000 residents with an ethnic minority community of just over 12.1%. The borough is a mix of urban and rural areas: Accrington is the largest town, while Altham and Knuzden are more isolated rural settlements. There are road and rail links with Manchester, Blackburn and Preston; and to the East with Leeds, Bradford and York.

The economic base of Hyndburn was founded on textiles, engineering and extractive industries. Today, manufacturing is still one of the area's largest employers with 23% of the workforce.

Hyndburn has 16 wards and the Council consists of 35 councillors, which following the local elections of 7th May 2016, comprises 26 Labour, 7 Conservative and 2 UK Independence Party members.

The Council has adopted the Leader and Cabinet model as its political management structure. The Leader of the Council is responsible for appointing members of the Cabinet and the allocation of portfolios. Cabinet members are held to account by a system of scrutiny as set out in the Constitution.

National Funding Changes

HBC faces reductions in funding from central government, cost pressures within services and increased volatility in financing. These will continue until at least 2019/20.

In November 2015 the Autumn Statement outlined changes to the method of local government funding.

- Revenue Support Grant which is the main non-ringfenced grant received by local government will end substantially reducing the Council's available resources.
- By 2020 local government as a whole will retain 100% of business rates revenue to fund local services, but it is unclear as to whether this will actually lead to increased local resources for Hyndburn.
- Central Government may transfer additional responsibilities to local government if it believes extra funding has been made available as a result of the changes in business rates. This further suggests that Hyndburn Council will not be better off from the proposed changes in funding.
- The Uniform Business Rate will be abolished and councils with other sufficient resources will be able to consider cutting business rates at their own discretion.
- Local authorities will have more freedom to use capital receipts to fund the revenue costs of business transformation.

In 2015/16, the year of these accounts, business rates increases were capped at 2%.

Financial Performance

The major influence on the Council's finances for the year was the government's fiscal reduction plan. Its aim is to reduce local government funding from £20,533bn in 2016/17 to £17,130bn in 2019/20 at an average rate of 6.6% per annum.

Roughly speaking, spending power is the sum of council tax, government revenue grants and NHS funding on social care and is used as basis when allocating central monies. In Hyndburn's case, its

revenue spending power fell by more than 13% in 2015/16 when compared to last year; and looking at the national figures in the previous paragraph, it is a trend which will continue. Consequently the Council's effectiveness in collecting its taxes becomes more important.

In 2015/16 Hyndburn Council collected £21.14m in business rates and paid out in precepts and demands £19.74m, a surplus of £1.40m. This surplus is shared with the other preceptors and included in future funding streams to support Hyndburn's expenditure.

In 2015/16 Hyndburn Council collected £32.79m in council tax and paid out in precepts and demands £29.86m a surplus of £2.93m. As with business rates this surplus is shared with the other preceptors and included in future funding streams to support Hyndburn's expenditure.

Service Provision

The Council set a revenue budget of £11.489m intended to provide day to day services for the local community. The budget comprised £12.148m of direct services expenditure less £0.659m of credits from financing activities. It was in line with its medium term financial strategy and produced overall service savings of £0.884m. The principal savings were achieved in waste services, planning and transport and policy and corporate governance.

As part of the budget setting process:

- There was a zero percentage increase in council tax for the sixth consecutive year
- All Hyndburn BC employees were paid at least a 'Living Wage'
- Free car parking in Hyndburn was continued in order to stimulate local shopping

The year end position for service provision is summarised in the table below.

<i>Description</i>	<i>Budget £000</i>	<i>Actual £000</i>	<i>Variance £000</i>
Planning & Transport	828.4	667.4	161.0
Environmental Health	596.5	570.4	26.1
Waste Services	3,084.5	2,879.2	205.3
Parks & Cemeteries	1,190.7	1,202.0	-11.3
Culture & Leisure	1,329.9	1,266.8	63.1
Regeneration Services	1,681.2	1,775.1	-93.9
Policy & Corporate Governance	3,436.8	2,902.2	534.6
Total	12,148.0	11,263.1	884.9
<i>Funding</i>	<i>£000</i>		
Council tax	4,343		
Baseline Funding	3,268		
Revenue Support Grant	3,805		
All other items (net)	732		
Total	12,148		

In addition, the Council's non-service budget of £658.9k produced a surplus of £31.7k.

Capital Investment in the Year

Each year the Council invests money to provide new services to the public or update existing facilities, buy new infrastructure, buildings and equipment and to pay for long term improvements to existing assets. The spending is needed to maintain and develop the services provided by the Council.

The tables below show the source of funding used to finance our capital spend this year and the major categories of expenditure for the year.

Where the money comes from

Source of Funding	£000
Grants	1,927
Contributions	26
Revenue	1,018
Reserves	191
Total	3,162

What the money is spent on

Capital Spend	£000
Housing projects	1,143
Community & Leisure Projects	1,509
Internal Projects	510
Total	3,162

Major capital projects undertaken by Hyndburn include:

- £710k acquiring and renovating properties particularly around Woodnook
- £450k renovating the Stable Block at Haworth Art Gallery
- £432k assisting those with disabilities to continue to live at home
- £268k modernising the ballroom in Accrington Town Hall

Pensions

Hyndburn BC participates, as an employing authority, in the Lancashire County Pension Fund administered by Lancashire County Council. The scheme is a defined benefit scheme i.e. retirement benefits are determined independently of scheme investments. A pensions reserve and pensions liability are incorporated within the Council's accounts reflecting the amount by which the Hyndburn element of the Lancashire is underfunded compared with the assessed payment liabilities to pensioners. At 31st March 2016 the overall liability of the Council was £38.5m. Note 36 explains the position in detail. The Council has an agreed long term strategy with the Pension Fund's Actuary for meeting the cost of these liabilities and they are contained within the current financing plans of the Council.

Explanation of Accounting Statements

Introduction

This publication contains the Council's Statement of Accounts for the year ended 31st March 2016.

They provide details of the money the Council spent on delivering services and where this money came from. The accounts also show the Council's financial performance and financial position for the year.

Stewardship of Public Money

The accounts have been prepared in accordance with the Chartered Institute of Public Finance and Accountancy's Code of Practice on Local Authority Accounting in the United Kingdom and are based on International Financial Reporting Standards.

The Council's Internal and External Auditors verify the regulations are being followed and the Council's accounts are subject to scrutiny by its elected Councillors and External Auditors.

Contents of the Accounts

The different parts of the accounts and their purposes are set out below:

Annual Governance Statement

This sets out key elements of the Council's governance framework, provides a review of its effectiveness and sets out plans for future development.

Independent Auditor's Report

The report sets out the External Auditor's opinion on whether the accounts present a true and fair view of the financial performance and position of the authority and whether the authority has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Statement of Responsibilities

This sets out the responsibilities of the Council and its Chief Financial Officer in relation to the Statement of Accounts.

Movement in Reserves Statement

The Movement in Reserves Statement (MiRS) is a summary of the changes that have taken place in the bottom half of the Balance Sheet over the financial year. It does this by analysing:

- The increase or decrease in the net worth of the Council as a result of incurring expenses and generating income
- The increase or decrease in the net worth of the Council as a result of movements in the fair value of its assets
- Movements between reserves to increase or reduce the resources available to the Council according to statutory provisions

Comprehensive Income and Expenditure Statement

This statement consolidates all the gains and losses experienced by the Council during the financial year. As Councils do not have equity in their Balance Sheets, these gains and losses will reconcile to the overall movement in net worth.

The statement has two sections:

- Surplus or Deficit on the Provision of Services – the increase or decrease in the net worth of the Council as a result of incurring expenses and generating income.
- Other Comprehensive Income and Expenditure – shows any changes in net worth which have not been reflected in the Surplus or Deficit on the Provision of Services. Examples include the increase or decrease in the net worth of the Council as a result of movements in the fair value of its assets and actuarial gains or losses on pensions assets and liabilities.

Balance Sheet

This statement sets out the financial position of the Council at year-end 31 March. Its top half contains the assets and liabilities it holds or has accrued with other parties. As Councils do not have equity, the bottom half is comprised of reserves that show the nature of the Council's net worth, falling into two categories:

- Usable Reserves – which include the revenue and capital resources available to meet future expenditure.

- Unusable Reserves – unrealised gains and losses, particularly the revaluation of property, plant and equipment e.g. Revaluation Reserve and adjustment accounts e.g. Capital Adjustment Account.

Cash Flow Statement

The Cash Flow Statement summarises the flows of cash that have taken place in and out of the Council's bank accounts over the financial year. It separates the flows into:

- Those that have occurred as a result of the Council's operations
- Those arising from the Council's investing activities (including cash flows relating to non-current assets)
- Those attributable to financing decisions

Collection Fund

This reflects the statutory requirement for billing authorities, such as Hyndburn Borough Council, to maintain a separate fund for the collection and distribution of amounts due in respect of council tax and national non-domestic rates (NNDR). There is no requirement for a separate Collection Fund Balance Sheet. Instead Collection Fund balances are distributed across the balance sheets of the billing authority, the government and precepting bodies.

Acknowledgement

I wish to record my thanks to colleagues in Finance services and in other service areas for their work and commitment in completing this Statement of Accounts and associated disclosures and supporting information.

Further information

A Statement of Accounts inevitably uses technical terms and language. A comprehensive Glossary of Accounting Terminology is on the Council's website www.hyndburnbc.gov.uk

The availability of the accounts for inspection is advertised by the Council on its website.

The Statement of Accounts, initially before audit completion and subsequently afterwards, is also placed on the Council's website.

If required, further information about the 2015/16 accounts is available from the Head of Accountancy Services, Hyndburn Borough Council, Scaitcliffe House, Ormerod Street, Accrington, BB5 0PF.

J.V. McIntyre CPFA
Deputy Chief Executive

ANNUAL GOVERNANCE STATEMENT

Annual Governance Statement

Scope of responsibility

Hyndburn Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively. The Council also has a duty, under the Local Government Act 1999, to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

To discharge this overall responsibility, the Council must have in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which include arrangements for the management of risk.

Hyndburn Borough Council has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. A copy of the authority's code is on our website at [Local Code of Corporate Governance - Our Code of Corporate Governance](#)

This statement explains how the Council has complied with the code and also meets the requirements of regulation 6(1) of the Accounts and Audit Regulations 2015 in relation to the production of an Annual Governance Statement.

The purpose of the governance framework

The Council has approved and adopted a code of corporate governance that is consistent with best practice governance principles for public services and in particular local government. The Council also complies with the CIPFA statement on the role of the Chief Financial Officer in Local Government (2010).

The governance framework comprises the systems and processes, and culture and values, by which the Council is directed and controlled and the activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an on-going process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at Hyndburn Borough Council for the year ended 31 March 2016 and up to the date of approval of the statement of accounts.

The Council's governance framework

The following paragraphs outline the key elements of the systems and processes which comprise Hyndburn Borough Council's governance framework and arrangements

1. Identifying and Communicating the Council's Vision

The Council's purpose and vision has been developed and promoted through its:

- Sustainable Community Strategy 2008-2018 which sets a vision for the whole of Hyndburn
- Corporate Strategy 2008-2018 which is the Council's own planning document
- The Medium Term Financial Strategy which describes how Hyndburn BC will meet the financial challenges facing it as a result of government decisions and grant funding changes

2. Reviewing the Council's Vision

The Community and Wellbeing Overview and Scrutiny Committee monitors the implementation of the Borough's Sustainable Community Strategy in particular its

- targets and objectives
- community safety policy and strategies
- development of sustainable communities
- external service providers including those who provide health services

Cabinet members are not allowed to be members of Overview and Scrutiny although they are invited to attend. They may ask questions at the discretion of the chair.

3. Measuring the Quality of Service for Users

The Council has in place arrangements to identify and deal with failure in service delivery. They include:

- Corporate complaints policy and procedures
- Procedure for dealing with complaints about elected members
- Whistleblowing policy and procedures
- Internal Audit's Annual Audit Plan and inspection reports
- External Annual Audit
- Scrutiny Committee Annual workplan and 'call in' arrangements
- Councillors Call for Action

Hyndburn Borough Council also has a number of core customer service standards which apply to all customers and staff. They include response times for:

- letters and e-mails
- telephone calls
- complaints
- visits to council offices
- visits to customer homes
- out of hours emergencies

They cover the attitude and behaviour of staff and customers.

The Resources Overview and Scrutiny Committee monitors the performance of Council services and suggests improvements. It monitors the Council's budgetary position during the year and advises of possible efficiency savings and steps required to address any budget deficit. It also monitors service delivery and improvements; and the Council's Treasury Management strategy. In addition it monitors achievement of the annual business plans for each service area.

The Leader allocates portfolios to each cabinet member and he/she is then responsible for performance matters in that area.

At the corporate level the Corporate Management Team manages issues relating to performance management.

At service level, heads of service undertake day to day monitoring of performance.

At the operational level, Performance and Development Review for staff ensures employees' work task objectives link into the corporate strategy and they are monitored by line managers.

4. Ensuring Quality Data

The Council has developed a Data Quality Policy and Strategy.

5. Defining and documenting the roles and responsibilities of the executive, non-executive, scrutiny and officer functions and protocols for communication

Constitutionally and in related practice, the Council has set out a clear statement of the respective roles and responsibilities of the executive (Cabinet) and of the executive's members individually and the Council's approach towards putting this into practice. Respective roles and responsibilities of other authority members, members generally and senior officers have been defined within the Constitution including the terms of reference for Council, Cabinet and committees. HBC has a remit for each Cabinet Portfolio and a Civic Protocol.

The Council has determined a Scheme of Delegation within the constitution, including a formal schedule of those matters specifically reserved for collective decision of the Council taking account of relevant legislation, and this has been monitored and updated on an on-going basis as and when necessary. The scheme is reviewed annually.

The Chief Executive is responsible and accountable to the Council for all aspects of operational management through his/her job description and the Council has developed protocols to ensure that the Leader and Chief Executive negotiate their respective roles early in the relationship and that a shared understanding of roles and objectives is maintained.

A chief officer (the S151 officer) –the Council's Deputy Chief Executive - is responsible to the Council for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts, and for maintaining an effective system of internal financial control, including the preparation of an Internal Audit Plan. The role is supported by Financial Procedure Rules within the Constitution.

The Monitoring Officer – the Council's Executive Director (Legal and Democratic Services) - is responsible to the Council for ensuring that agreed procedures are followed and that all applicable statutes and regulations are complied with.

In addition, senior officers of the Council can make decisions under delegated authority. The Council publishes a Forward Plan which contains details of key decisions to be made by the Council, its

committees and chief officers under their delegated powers.

Heads of departments have responsibility for identifying, evaluating, communicating, complying with, and monitoring new, or changes to, legislation affecting their departments and reporting to the relevant committee the implications for the Council of such legislation.

The roles of the scrutiny committees have been described in paragraphs 2 and 3 above.

Hyndburn Borough Council holds meetings in public unless there are good reasons for confidentiality, and ensures that arrangements are in place to enable the Council to engage with all sections of the community effectively.

Examples of the Council's methods of communication include:

- Access to Information Procedure Rules
- the Freedom of Information Guidance on the website
- the Complaints Policy and Procedures
- the Equality Standard, and Equality Impact Assessment process

The Council publishes annually to accompany the annual Statement of Accounts an annual governance statement (i.e. this document), which sets out the principles of good governance to which this Council is committed, and the findings of the annual review of those governance arrangements, together with conclusions and proposals to deal with any issues identified.

6. Developing, Communicating and Embedding Codes of Conduct

Arrangements are in place to ensure that members and employees of the Council are not influenced by prejudice, bias or conflicts of interest in dealing with stakeholders. The arrangements include:

- Financial procedure rules
- Contract procedure rules
- Codes of Conduct for Members and Employees
- Member Officer Relations Protocol
- Register of Members Interests
- Register of Gifts and Hospitality which is reviewed monthly by the Monitoring Officer
- Procedures for dealing with complaints about elected members

Hyndburn Borough Council also has a Standards Committee which is responsible for dealing with complaints against councillors. Its terms of reference and membership can be found on the Council's website.

7. Reviewing and updating standing orders, standing financial instructions, a scheme of delegation, defining how decisions are taken and managing risks

Financial Control

The financial management of the authority is conducted in accordance with the financial rules set out in Part 4 (F) of the Constitution; Financial Procedures.

A scheme of delegation is included at Part 3 of the Constitution; Responsibility for Functions.

The Council has designated the Deputy Chief Executive in accordance with Section 151 of the Local Government Act 1972.

Financial Procedure Rules (Financial Regulations) are an integral part of the Council's Constitution and the means by which the Council's Section 151 officer lays down the internal controls that must be complied with to ensure the proper administration of the Council's financial affairs.

Internal Audit continually reviews these controls and recommends changes and improvements where necessary.

Decision Making / Scrutiny

The Constitution sets out how the Council operates, how decisions are made, and the procedures which are followed to ensure transparency and accountability to local people.

It includes:

- Articles of the Constitution – principal arrangements
- Responsibility for Functions - terms of reference and scheme of delegation
- Rules of Procedure for Council, Executive and other key areas
- Codes and Protocols for Council, members and officers

The Council's two Overview and Scrutiny Committees (Resources; and Communities and Well Being) assist the Council and Cabinet in the development of a Budget and Policy Framework by in-depth analysis of policy issues. Specific Procedure Rules, and Terms of Reference, are in place within the Constitution to govern these arrangements and ensure an appropriate and full role is played in the corporate governance of the Council by the scrutiny committees.

The Council's committee report writing guidelines outline the necessity of including financial and legal considerations and where appropriate a risk assessment of the decisions members are being asked to make. The section 151 and monitoring officer have an opportunity to review and comment upon Cabinet and Council reports before they are included on meeting agendas.

Managing Risks

The Council adopted a Risk Management Strategy and Strategic Risks Policy in April 2003. Operational Risks were added in July 2003. The addition of the process for on-going monitoring, review, addition, deletion and amendment of risks was approved in September 2003. The Risk Management Strategy was reviewed in 2010 and the process for reviewing the risk registers was revised. The changes were notified to and accepted by the Management Team and the Audit Committee.

Three Risk Registers (Strategic, Generic and Operational) are in place and appropriate staff have been trained in the assessment, management and monitoring of risks. Management team undertake reviews aligned to Audit Committee cycles to ensure that risks are in line with the corporate goals and objectives.

Aligned to the Audit Committee cycle, Risk Monitoring Reports are produced for inspection by the Audit Committee. The Risk Registers are updated regularly with feedback from Directors, Heads of Service and Other Senior Managers, and changes reported to each meeting of the Audit Committee.

Insurable risks are regularly reviewed by officers and the council's insurer to confirm the appropriate level of cover and value for money.

8. Undertaking the Core Functions of an Audit Committee

The Council maintains an effective Audit Committee which is independent of the Executive. It has scrutiny functions and appropriate arrangements for the discharge of its functions, through its terms of reference, which were revised in 2009/10, and are modelled on the CIPFA Code of Practice.

In order to continue the Committee's development and raise its profile the number of members has been increased from four to six.

9. Ensuring compliance with relevant laws and regulations, internal policies and procedures and that expenditure is lawful

All chief officers are required to plan and discharge their departmental functions in accordance with Council policies and legislative requirements.

Corporate management is provided by the Corporate Management Team led by the Chief Executive. The Chief Finance Officer (section 151) and the Monitoring Officer have the ability, after consulting with the Chief Executive, to report to the Cabinet or full Council and the Council's External Auditor, if s/he considers that any proposal, decision or course of action will incur unlawfulness or unlawful expenditure.

Within the reporting system all committee reports contain a financial implications paragraph and legal implications paragraph which must be completed, together with a section requiring consideration of the equalities implications of any proposed decision.

Also relevant are the Council's Financial Regulations, Procedures and Schemes of Delegation. They are kept under review and are communicated to the relevant level of officer thereby ensuring the adequate control of financial transactions.

Internal audit is an independent appraisal function which reviews all the Council's activities, both financial and non-financial. It provides a service to the whole Council in order to assure on the arrangements for risk management, internal control and corporate governance and to provide advice to support best practice.

The Council's external auditors are Grant Thornton whose most recent Annual Audit letter concluded the Council has effective management in place for internal control.

10. Process for whistle-blowing and for receiving and investigating complaints from the public

Hyndburn Borough Council has put in place arrangements to ensure that systems and processes conform to appropriate ethical standards, and monitor their continuing effectiveness in practice. Such arrangements are embodied in:

- the Council's Constitution including Procedure Rules and codes of conduct
- the codes of conduct for planning and licensing functions
- the Anti-Fraud and Corruption Strategy
- the Whistleblowing Policy
- the Complaints Policy and Procedures
- the procedures for dealing with complaints about elected members

11. Identifying the development needs of members and senior officers in relation to their strategic roles supported by appropriate training

All posts have a job description and person specification. Training needs are identified through the Performance and Development Reviews and are recorded in an employee's work plan.

Strategic training needs are defined in the Corporate Training Plan as are generic operational ones in the development action plans.

The Corporate Training Plan is produced annually in consultation with Directors, Heads of Service and other senior managers and is approved by Management Team and sent to Cabinet for information.

In assessing the skills needed by members the Council has made a commitment to develop those skills to enable roles to be carried out effectively. It will use the annual Members Development Programme and member personal development plans.

The Council has been awarded the North West Charter for Member Development.

12. Establishing clear levels of communication with all sections of the community and other stakeholders

Hyndburn Borough Council has established a clear policy on the types of issues it will meaningfully consult on or engage with the public and service users about, including a feedback mechanism for consultees to demonstrate what has changed as a result.

The Council uses the Communication Strategy, the Consultation Strategy, and the website for customers to "have your say". It publishes an Annual Report and the Statement of Accounts.

Hyndburn BC has improved and updated its website information on the work of the Standards Committee, which addresses complaints about councillors, corporate governance arrangements, and doing business with the Council.

The Council has obtained 'achieving' status under the Equality standard and has obtained the Navajo Standard.

13. Incorporate good governance arrangements in respect of partnerships and other groups

Hyndburn has a strong record of successful partnerships delivering outcomes which meet the requirements of the local communities.

To achieve this the Council has been able to:

- Exercise appropriate leadership in the community which effectively engages with local people, partnerships and other stakeholders and develops constructive accountable relationships.
- Take an active and planned approach to dialogue with and accountability to the public to ensure effective and appropriate service delivery whether directly by the authority, in partnership or by commissioning.
- Make clear to whom it is accountable and for what.
- Consider those institutional stakeholders to whom the Council is accountable and assess the effectiveness of the relationships and any changes required.

- Ensure that clear channels of communication are in place with all sections of the community and other stakeholders, and put in place monitoring arrangements to ensure that the Council operates effectively.
- Ensure that the Council as a whole is open and accessible to the community, and that it has made a commitment to openness and transparency in all partnership dealings, subject only to the need to preserve confidentiality in those specific circumstances where it is proper and appropriate to do so.

When working in partnership Hyndburn Borough Council ensures that members are clear about their roles and responsibilities, both individually and collectively, in relation to the partnership and to the Council.

The Council also ensures there is clarity about the legal status of the partnership, and that representatives or organisations both understand and make clear to all other partners the extent of their authority to bind their organisation to partner decisions.

A Joint Venture Protocol is in place. All Council partnerships relate to the agreed Corporate Strategy priorities and embody, and uphold, proper conduct, funding and monitoring arrangements.

Appointments of Hyndburn councillors to outside bodies, including any boards of external partners / arrangements, are approved at the Annual Meeting of the full Council.

Review of Effectiveness

Hyndburn Borough Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Audit's annual report, and also comments made by the external auditors and other review agencies and inspectorates.

Each year the responsible officers review the areas they are responsible for under the internal control framework. They confirm existing arrangements and list any changes or improvements made. Then they sign a statement to endorse the current position which is kept on file centrally.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the corporate management team and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework.

The Council is ultimately responsible for maintaining an up to date governance framework which is chiefly contained in its constitution and consists of its standing orders, financial regulations and scheme of delegation together with associated policies and procedures.

During the year the Council's Internal Auditors concluded that Hyndburn BC has effective arrangements in place for internal control and did not raise any significant issues of concern.

Chief Executive

Leader of the Council

Date.....

Date.....

AUDITOR'S REPORT

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

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

Respective responsibilities of the Authority and the auditor

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

Conclusion

Certificate

STATEMENT OF RESPONSIBILITIES

The following responsibilities are placed upon the Authority and the Chief Financial Officer in relation to the Authority's financial affairs.

The Authority's Responsibilities

The Authority is required:

- to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority that officer is the Chief Finance Officer;
- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- to approve the final Statement of Accounts.

The Chief Financial Officer's Responsibilities

As Chief Financial Officer, I am responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing the Statement of Accounts, I have:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Code.

I have also:

- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

The statement of accounts presents a true and fair view of the financial position of the authority as at 31st March 2016 and its income and expenditure for the financial year 2015/16.

17 June 2016



J. V. McIntyre CPFA

Deputy Chief Executive / Section 151 Officer

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves.

The surplus or (deficit) on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund balance for council tax setting purposes.

The Net Increase / Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

MOVEMENT IN RESERVES STATEMENT

	General Fund Balance £000	Earmarked Reserves £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	TOTAL USABLE RESERVES £000	UNUSABLE RESERVES £000	TOTAL AUTHORITY RESERVES £000
Balance as at 31st March 2015	2,505	9,546	3,784	1,851	17,686	(14,278)	3,408
<u>Movement in Reserves during 2015/16</u>							
Surplus / (deficit) on provision of services	(1,648)				(1,648)		(1,648)
Other comprehensive expenditure and income						8,165	8,165
Total Comprehensive Expenditure and Income	(1,648)				(1,648)	8,165	6,517
Adjustments between accounting basis and funding basis under regulations (Note 6)	2,592		226	(629)	2,189	(2,189)	0
Net increase / (decrease) before transfer to Earmarked Reserves	944		226	(629)	541	5,976	6,517
Transfers to / (from) Earmarked Reserves (Note 7)	(412)	412			0	0	0
Increase / (Decrease) in year	532	412	226	(629)	541	5,976	6,517
Balance at 31 March 2016 carried forward	3,037	9,958	4,010	1,222	18,227	(8,302)	9,925

* restated	General Fund Balance £000	Earmarked Reserves £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	TOTAL USABLE RESERVES £000	UNUSABLE RESERVES £000	TOTAL AUTHORITY RESERVES £000
Balance as at 31st March 2014	*3,224	8,432	*3,815	3,066	*18,537	*(264)	*18,273
<u>Movement in Reserves during 2014/15</u>							
Surplus / (deficit) on provision of services Other comprehensive expenditure and income	(4,319)				(4,319)	(10,546)	(4,319) (10,546)
Total Comprehensive Expenditure and Income	(4,319)	0			(4,319)	(10,546)	(14,865)
Adjustments between accounting basis and funding basis under regulations (Note 6)	4,714		(31)	(1,215)	3,468	(3,468)	0
Net increase / (decrease) before transfer to Earmarked Reserves	395	0	(31)	(1,215)	(851)	(14,014)	(14,865)
Transfers (to / (from) Earmarked Reserves (Note 7)	(1,114)	1,114					
Increase / (Decrease) in year	(719)	1,114	(31)	(1,215)	(851)	(14,014)	(14,865)
Balance at 31 March 2015 carried forward	2,505	9,546	3,784	1,851	17,686	(14,278)	3,408

Comprehensive Income and Expenditure Statement

The statement shows the accounting cost in year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation.

Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost.

The taxation position is shown in the Movement in Reserves Statement.

Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council.

Reserves are reported in two categories:

- Usable reserves which can be used by the Council to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use e.g. Capital Receipts Reserve can only be used to fund capital expenditure or repay debt.
- Unusable reserves which the Council cannot use to provide services. This category includes reserves that hold unrealised gains or losses e.g. the Revaluation Reserve, where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

BALANCE SHEET

31 st March 2015 £000 *restatement	Balance Sheet for the Council as at year end 31st March	Note	31 st March 2016 £000
26,806	Property, Plant & Equipment	10	25,098
4,720	Heritage Assets	11	4,720
7,668	Investment Property	12	7,696
122	Intangible Assets	13	99
39,316	Total Non-Current Assets		37,613
359	Long Term Investments	14	359
208	Long Term Debtors	14	345
39,883	LONG TERM ASSETS		38,317
52	Inventories	15	41
4,561	Short Term Debtors	16	3,689
18,029	Short Term Investments	14	23,065
3,036	Assets Held for Sale	17	2,682
2,030	Cash & Cash Equivalents	18	1,695
27,708	CURRENT ASSETS		31,172
(80)	Short Term Borrowing	14	(79)
(5,597)	Short Term Creditors	19	(9,429)
(1,342)	Bank (overdraft)	18	(91)
0	Provisions current	20	0
(7,019)	CURRENT LIABILITIES		(9,599)
(9,807)	Long Term Borrowing	14	(9,804)
(1,169)	Provisions – Long Term	20	(1,432)
(396)	Deferred Liabilities: Finance Leases	35	(251)
(45,792)	Net Pensions Liability	36	(38,478)
(57,164)	LONG TERM LIABILITIES		(49,965)
3,408	NET ASSETS		9,925
	CAPITAL ACCOUNTS & RESERVES		
	<i>Usable Reserves</i>		
2,505	General Fund Balance Reserve		3,037
9,546	Earmarked Reserves	7	9,958
3,784	Usable Capital Receipts Reserve		4,010
1,851	Capital Grants Unapplied		1,222
(14,278)	Unusable Reserves and Accounts	22	(8,302)
3,408	TOTAL RESERVES AND BALANCES		9,925

Cash Flow Statement

This statement shows the changes in cash and cash equivalents for the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, financing and investing activities.

- The amount of net cash flows arising from operating activities is a key indicator of the extent to which operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council
- Investing cash flows represent the extent to which cash outflows have been made to contribute to the Council's future service delivery
- Financing cash flows are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council

CASH FLOW STATEMENT

2014/15 £ 000		2015/16 £000
4,319	Net (surplus) or deficit on the provision of services	1,648
(8,650)	Adjustments to net surplus or deficit on the provision of services for non-cash movements – Note 23 i	(11,130)
293	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities - Note 23 ii	225
(4,038)	Net cash flows from Operating Activities	(9,257)
1,939	Investing Activities - Note 25	6,280
2,168	Financing Activities - Note 26	2,060
69	Net (increase) or decrease in cash and cash equivalents	(917)
750	Cash and cash equivalents at the beginning of the reporting period	681
681	Cash and cash equivalents at the end of the reporting period	1598

LIST OF NOTES

1. Accounting policies
2. Accounting Standards that have been issued but not yet adopted
3. Critical judgements in applying accounting policies
4. Assumptions made about the future and other major sources of estimation and uncertainty
5. Events after the balance sheet date
6. Adjustments between accounting basis and funding basis under regulations
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9. Financing and investment income and expenditure
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17. Assets held for sale
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19. Creditors
20. Provisions
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23. Cash flow statement – adjustments for non-cash movements
24. Cash flow statement – operating activities
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27. Amounts reported for resource allocation decisions
28. Trading operations
29. Members allowances
30. Officers remuneration
31. External Audit Costs
32. Grant income
33. Related parties
34. Capital expenditure and capital financing
35. Leases
36. Defined benefit pension schemes
37. Contingent liabilities
38. Nature and extent of risks arising from financial instruments

1. ACCOUNTING POLICIES

i. General Principles

The Statement of Accounts summarises the Authority's transactions for 2015/16 financial year and its position at the year-end 31st March 2016. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations (2015), which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and the Service Reporting Code of Practice 2015/16, supported by the International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

ii. Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- 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.
- 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.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories in the Balance Sheet.
- Expenses in relation to services received (including services as provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of effective interest for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

iii. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months or less from the date of acquisition and are readily convertible to known amounts of cash with insignificant risk of change in value.

In the cash flow statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

iv. Exceptional Items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

v. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance.

Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

vi. Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

- Depreciation attributable to the assets used by the relevant service.
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.
- Amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement.

Depreciation, revaluation and impairment losses and amortisation are replaced by a Minimum Revenue Provision calculated on a prudent basis by the Council in accordance with statutory guidance. This is achieved through an adjusting transaction between the General Fund Balance and the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

vii. Employee Benefits

Benefits Payable During Employment

Short term employee benefits are those due to be settled within 12 months of the year end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits e.g. cars for current employees and are recognised as an expense for the services in the year which employees render service to the authority.

An accrual is made for the cost of holiday entitlements (or any form of leave e.g. time of in lieu) earned by employees but not taken by the year end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit.

The accrual is charged to the Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves statement so that holiday benefits are charged to the revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on accruals basis to the appropriate service or, where applicable, to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement at the earlier of when the Council can no longer withdraw the offer of those benefits or when the council recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pension Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at year end.

Post Employment Benefits

Employees of the Council are eligible to join the Local Government Pension Scheme administered by Lancashire County Council. The scheme provides defined benefits to members (retirement lump sums and pensions) earned as employees work for the Council.

The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Lancashire County Pension Scheme attributable to Hyndburn Borough Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 3.5% (3.2% 31st March 2015) based on the indicative rate of return on high quality (AA rated) corporate bonds.
- The assets of the Lancashire County Council Pension Fund attributable to Hyndburn Borough Council are included in the Balance Sheet at their fair value:
 - Quoted securities – current bid price
 - Unquoted securities – professional estimate
 - Utilised securities – current bid price
 - Property – market value
- The change in the Net Pensions Liability is analysed into the following components:

Service cost comprising:

- Current Service Cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employee worked.
- Past Service Cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
- Net Interest on The Net Defined Benefit Liability (Asset) i.e. net interest expense for the authority – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – that is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

Remeasurements comprising:

- The Return on Plan Assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as other Comprehensive Income and Expenditure
- Actuarial Gains and Losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pension Reserve as Other Comprehensive Income and Expenditure

Contributions paid to the Lancashire County Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at year end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

viii. Events After The Reporting Period

Events after the balance sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of event can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events.
- Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

ix. Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The term ‘financial instrument’ covers both financial assets and financial liabilities; and includes the most straightforward assets and liabilities e.g. debtors, period end balances and creditor balances and the most complex e.g. derivatives.

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Financial Assets

Financial assets are classified in two types:

- Loans and receivables – assets that have fixed and determinable payments but are not quoted in a active market
- Available for sale assets – assets that have a quoted market price and / or do not have fixed or determinable payments.

Loans and Receivables

Loans and receivables are recognised in the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are

subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

However, the Council has made loans to an organisation at less than market rates (soft loans). When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable from the voluntary organisation, with the difference serving to increase the amortised cost of the loan in the balance sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

x. Government Grants and Contributions

Whether paid on account, by instalments or in arrears, 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.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the balance sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

xi. Heritage Assets

Tangible Heritage Assets (described in this summary of significant accounting policies as heritage assets)

The Council's heritage assets are held in the Haworth Art Gallery. The Gallery has four collections of heritage assets which are held in support of the primary objective of the museum i.e. maximise the recognition, appreciation and use of Haworth Art Gallery and its unique Tiffany Glass collection as a historic and contemporary art, education, leisure and tourism asset of local, regional and national importance.

Heritage assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on property, plant and equipment. However some of the measurement rules are relaxed in relation to heritage assets as detailed below.

The Tiffany Glass Collection

The Tiffany Glass collection includes handmade blown glass vases, glass tiles, jewels and mosaics; as well as pottery, metalwork and enamel items.

The items are reported in the Balance Sheet at insurance valuation which is based on market values. The insurance valuations are updated periodically.

The Art Collection

The art collection includes paintings (both oil and watercolour) as well as etchings, book illustrations and chromolithographs. It is reported in the Balance Sheet at market value.

Numismatics Collection

The collection comprises coins, medals and tokens. The medals show portraits of famous people through history, while the trade tokens have a strong local connection.

The items are reported in the Balance Sheet at insurance valuation which is based on market values. The insurance valuations are updated periodically.

Community Collection

The items are reported in the Balance Sheet at insurance valuation which is based on market values. The insurance valuations are updated periodically.

The date of the latest valuation of Heritage Assets undertaken by Eric Knowles Antiquarian Services is January 2011.

Assets within all four collections are deemed to have indeterminate lives and, in the case of the glass and art collections, a high residual value; hence the Council does not consider it appropriate to charge depreciation.

All four collections are relatively static and acquisitions and donations are rare. The Gallery is accredited by the Arts Council of Great Britain which means it has a statement of purpose, an

acquisition and disposals policy, a guide to the documentation relating to the collections and a plan for the collections' care and conservation.

Civic Regalia

The Council also has a collection of civic regalia which is held at the Town Hall. It was last valued for insurance purposes by George Banks, goldsmith, in March 2010.

xii. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council e.g. software licences are capitalised when it is expected that the future economic benefits or service potential will flow from the intangible asset to the Council.

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods and services.

Intangible assets are initially measured at cost. Amounts are only re-valued where the fair value of an asset can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost.

The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sales proceeds greater than £10,000) to the Capital Receipts Revenue Account.

xiii. Inventories

Inventories are held in the Balance Sheet at purchase price. The cost of inventories is assigned using the First In First Out costing formula.

xiv. Investment Property

Investment properties are those that are used solely to earn rentals and / or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but revalued annually according to market conditions at year end. Gains and losses on revaluation are posted to the financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General

Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

xv. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately.

The Council as Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception. The asset recognised is matched by a liability for the obligation to pay the lessor. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

A charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and

A finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, plant and equipment recognised under finance leases are accounted for using the policies applied generally to such assets.

The Council is not required to raise Council Tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from the use of the leased property, plant or equipment.

The Council as Lessor

Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or

Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- A charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- Finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

xvi. Overheads and Support Services

The cost of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the Cipfa Service Reporting Code of Practice 2015/16 (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multi-functional, democratic organisation.
- Non-distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement as part of Net Expenditure on Continuing Service.

xvii. Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on accruals basis, provided it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably.

Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (e.g. repairs and maintenance) is charged to the Comprehensive Income and Expenditure Statement as it is incurred.

Measurement

Assets are initially measured at cost, comprising the purchase price and any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by the management.

Assets are then carried in the Balance Sheet using the following measurement bases:

- Infrastructure, community assets and assets under construction – depreciated historical cost
- Surplus Assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective
- All other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV)

Where there is no market based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure their carrying amount is not materially different from their fair value at the year end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains.

Where decreases in value are identified, they are accounted for by:

- Where there is a balance for gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line in the Comprehensive Income and Expenditure Statement

The Revaluation Reserve contains revaluation gains recognised since April 1st 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

Assets are assessed at year end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)

Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line in the Comprehensive Income and Expenditure Statement

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all property, plant and equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

The Council operates a straight line method for depreciation over the useful economic life of the asset as follows:

Asset	Period (Years)
Operational Buildings	30*
Non-Operational Buildings	30*
Community Assets	5 - 50
Infrastructure	10
Vehicles & Plant	2-10
Surplus Assets –Housing Market Renewal Properties	15

**As part of the Council's five year rolling revaluation programme, a revised estimated useful life of the asset (if applicable) may be applied, up to a maximum of 60 years.*

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale.

Assets Held for Sale are assets where the:

- Asset is immediately available for sale
- Sale is highly probable
- Asset is actively marketed
- Sale is expected to be completed within twelve months

The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at that date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

Disposals

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals, if any, are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated on the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's capital financing requirement. Receipts are appropriated to the Capital Receipts Reserve in the Movement in Reserves Statement.

The written off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

xviii. Provisions, Contingent Liabilities and Contingent Assets

Provisions are made when an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential and a reliable estimation can be made of the amount of the obligation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the Council's control. Contingent liabilities can also arise in circumstances where a provision would otherwise be made but either it is not sufficiently certain that the event will take place or the obligation cannot be measured reliably.

A contingent asset arises where an event has taken place that gives the Council a possible asset but whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent liabilities and assets are not recognised in the Balance Sheet but are disclosed in a note to the accounts.

xix. Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts from the General Fund Balance in the Movements in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the surplus or deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, retirement and employee benefits. These do not represent usable resources for the Council, and include the capital adjustment account, revaluation reserve and pensions reserve.

xx. Revenue Expenditure Funded From Capital Under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year.

Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

xxi. VAT

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. Vat receivable is excluded from income.

2. ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT NOT YET ADOPTED

Under the Code of practice on Local Authority Accounting in the United Kingdom 2015/16 (the Code), the Council is required to disclose information setting out the impact of an accounting change required by a new accounting standard which has been issued but not yet adopted by the Code.

Cipfa Code on Transport Infrastructure Assets takes effect from April 2016.

The standard is not expected to have a material effect on the Statement of Accounts because under the code definition the Council does not own or control a transport infrastructure.

Annual Improvements to IFRSs. The improvements are minor and concern matters of clarification. They will not have a material effect on the Statement of Accounts.

3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in note 1, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- There is a high degree of uncertainty about future levels of funding for local government. However this uncertainty is not yet sufficient to provide an indication of what assets might be impaired as a result of the need to close facilities and reduce levels of service provision.
- The Council has leased its sports centres, the Town Hall and civic theatre to Leisure in Hyndburn (LiH). It has also entered into an annual funding agreement with them. None of the current legal arrangements enables LiH to determine council policy.

4. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION AND UNCERTAINTY

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31st March 2016 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant & Equipment	Assets are depreciated over useful lives that rely on assumptions about the level of repair and maintenance. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful life assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying value of the asset falls. It is estimated that the annual depreciation charge for buildings would increase by £16k for every year that useful lives had to be reduced.
Pensions liability	Estimation of the net liability to pay pension depends on a number of complex judgements.	The effects on the net pension liability of changes in individual assumptions can be measured. However the assumptions interact in complex ways. Note 36 provides details on actuarial gains and losses in recent years.
Arrears	Note 16 gives detail of debtors and their associated bad debt provisions. However in the current economic climate it is not certain that these provisions will be sufficient.	If collection rates were to deteriorate, then the level of bad debt provisions would have to be increased.
Provisions	The Council has estimated its business rates appeals provision based on the number and value of past successful claims.	If the number of appeals which were successful increased, then the level of provision would have to be increased.

5. EVENTS AFTER THE BALANCE SHEET DATE

The Statement of Accounts was authorised for issue by the s151 officer on xx September 2016. Events taking place after this date have not been reflected in the financial statement or notes. Where events taking place before this date provide information about conditions existing at 31st March 2016, the figures in the financial statements and notes have been adjusted in all material aspects to reflect the impact of this information.

6. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

The following sets out a description of the reserves that the adjustments are made against.

General Fund Balance

The General Fund is the statutory fund into which all the receipts of the authority are required to be paid and out of which all liabilities of the authority are to be met, except to the extent that statutory rules might provide otherwise. It summarises the resources the Council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources the Council is required to recover) at the end of the financial year.

Capital Receipts Reserve

The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources which have yet to be applied for these purposes at year end.

Capital Grants Unapplied

The Capital Grants Unapplied Account (Reserve) holds the grants and contributions received towards capital projects for which the Council has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and / or the financial year in which this can occur.

Adjustments between Accounting and Funding basis Under Regulations 2015/16	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Unusable Reserves £000
<i>Adjustments primarily involving the Capital Adjustment Account</i>				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement				
Charges for depreciation of non-current assets	1,274			(1,274)
Impairment of non-current assets				
Revaluation losses on property, plant & equipment	2,500			(2,500)
Movements in the market value of investment properties and assets held for sale	(24)			24
Amortisation of intangible assets	42			(42)
Capital grants and contributions applied	(1,247)			1,247
Movement in donated assets account				
Revenue expenditure funded from capital under statute	1,047			(1,047)
Amounts of non-current assets written off on disposal or sale as part of the gain / loss on disposal to the CIES	437			(437)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement				
Statutory provision for the financing of capital investment	(580)			580
Capital expenditure charged against the General fund balances	(1,216)			1,216
<i>Adjustments primarily involving the Capital Grants Unapplied Account</i>				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(70)		70	
Application of grants to capital financing transferred to the Capital Adjustment Account			(699)	699

Adjustments between Accounting and Funding basis Under Regulations 2015/16				
<i>Adjustments primarily involving the Capital Receipts Reserve</i>				
Transfer of cash sale proceeds credited as part of the gain / loss on disposal to CIES	(225)	225		
Use of capital receipts reserve to finance new capital expenditure				
Contribution from the capital receipts reserve towards administrative costs of non-current assets disposals				
Contribution from the capital receipts reserve to finance the payments to the govt. capital receipts pool				
Transfer from deferred capital receipts reserve upon receipt of cash		1		(1)
<i>Adjustments primarily involving the Financial Instruments Adjustment Account</i>				
Amount by which finance costs charged to CIES are different from finance costs chargeable in year in accordance with statutory requirements	(11)			11
<i>Adjustments primarily involving the Pensions Reserve</i>				
Reversal of items relating to retirement benefits debited or credited to CIES (see Note 36)	3,302			(3,302)
Employer's pensions contributions and direct payments to pensioners payable in the year	(2,507)			2,507
<i>Adjustments primarily involving the Collection Fund Adjustment Account</i>				
Amounts by which the council tax and non-domestic rating income credited to CIES is different from council tax and non-domestic rating income calculated for the year in accordance with statutory requirements	(130)			130
<i>Adjustments primarily involving the Accumulated Absences Account</i>				
Amount by which officer remuneration charged to CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements				
TOTAL ADJUSTMENTS	2,592	226	(629)	(2,189)

Adjustments between Accounting and Funding basis Under Regulations 2014/15	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Unusable Reserves £000
<i>Adjustments primarily involving the Capital Adjustment Account</i>				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement				
Charges for depreciation of non-current assets	1,403			(1,403)
Impairment of non-current assets				
Revaluation losses on property, plant & equipment	5,435			(5,435)
Movements in the market value of investment properties and assets held for sale	(25)			25
Amortisation of intangible assets	39			(39)
Capital grants and contributions applied	(1,181)			1,181
Movement in donated assets account				
Revenue expenditure funded from capital under statute	1,335			(1,335)
Amounts of non-current assets written off on disposal or sale as part of the gain / loss on disposal to the CIES	474			(474)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement				
Statutory provision for the financing of capital investment	(609)			609
Capital expenditure charged against the General fund balances	(1,466)			1,466
<i>Adjustments primarily involving the Capital Grants Unapplied Account</i>				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(5)		5	
Application of grants to capital financing transferred to the Capital Adjustment Account			(1,220)	1,220
Adjustments between Accounting and Funding basis Under Regulations 2014/15				
<i>Adjustments primarily involving the Capital Receipts Reserve</i>				
Transfer of cash sale proceeds credited as part of the gain / loss on disposal to CIES				
Use of capital receipts reserve to finance new capital expenditure	(293)	293		
Contribution from the capital receipts reserve towards administrative costs of non-current assets disposals		(324)		324
Contribution from the capital receipts reserve to finance the payments to the govt. capital receipts pool				
Transfer from deferred capital receipts reserve upon receipt of cash				

<i>Adjustments primarily involving the Financial Instruments Adjustment Account</i>				
Amount by which finance costs charged to CIES are different from finance costs chargeable in year in accordance with statutory requirements				
<i>Adjustments primarily involving the Pensions Reserve</i>	(12)			12
Reversal of items relating to retirement benefits debited or credited to CIES	2,984			(2,984)
Employer's pensions contributions and direct payments to pensioners payable in the year	(2,515)			2,515
<i>Adjustments primarily involving the Collection Fund Adjustment Account</i>				
Amounts by which the council tax income credited to CIES is different from council tax calculated for the year in accordance with statutory requirements	(844)			844
<i>Adjustments primarily involving the Accumulated Absences Account</i>				
Amount by which officer remuneration charged to CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(6)			6
TOTAL ADJUSTMENTS	4,714	(31)	(1,215)	(3,468)

7. TRANSFERS TO / FROM EARMARKED RESERVES

This note sets out the amounts set aside from the General Fund in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2015/16.

	Balance at 01.04.14 £000	Transfers Out 14/15 £000	Transfers In 14/15 £000	Balance at 31.03.15 £000	Transfers Out 15/16 £000	Transfers In 15/16 £000	Balance at 31.03.16 £000
Planning s106 Fund	1,652	(206)		1,446	(32)	258	1,672
Housing and Planning Fund	73			73			73
Area Based Grant Reserve	138	(88)		50	(9)		41
Performance Reward Reserve	86	(34)		52	(12)		40
Environmental Warranties	2,016		250	2,266		250	2,516
Transitional Grant	1,453			1,453	(21)		1,432
Efficiency Support Grant	0		659	659	(268)		391
Balance set aside for invest to save initiatives	820	(665)	1,104	1,259	(418)	384	1,225
New Homes Bonus	0			0		228	228
Communities For Health Funding	126	(34)		92	(1)	14	105
Dilapidations Reserve	1,316			1,316			1,316
Balances set aside from previous years to fund specific future expenditure	752	(92)	220	880	(94)	133	919
Total	8,432	(1,119)	2,233	9,546	(855)	1,267	9,958

Description of Reserves

Planning s106 Fund – Amounts received for planning obligations to be spent on capital / revenue projects in line with respective agreements.

Housing & Planning Fund – Capital reserve which is the balance of the original amount awarded in 2008 for improved delivery of housing and other planning outcomes.

Area Based Grant Reserve – Allocated by central government to support the delivery of local, regional and national priorities in Hyndburn. The reserve is the unspent balance of the final allocation made in 2010/11.

Performance Reward Reserve – The grant was originally paid by central government for the achievement of Local Area Agreement schemes; the reserve is the unspent balance.

Environmental Warranties – To fund any potential liabilities arising from the large scale voluntary transfer of the housing stock to Hyndburn Homes Ltd on March 30th 2006.

Transitional Grant – Government grant received which has no specific conditions attached but has not been allocated for specific service use.

Efficiency Support Grant - Government grant awarded to local authorities that otherwise would have seen a reduction of more than 8.8% of their revenue spending power and used to support changes to services that reduce our long term costs.

Balance set aside for invest to save initiatives – Balance of revenue underspend held separately to fund future service delivery.

New Homes Bonus – Government grant received which has no specific conditions attached, this is the unspent balance from the sum received in 15/16.

Communities For Health Funding – Amount identified to support leisure related expenditure.

Dilapidations Reserve – Amount identified for asset remedial work.

Balances set aside from previous years to fund specific expenditure – Underspends from previous years which have been set aside to fund future expenditure.

8. OTHER OPERATING EXPENDITURE

	2014/15 £000	2015/16 £000
Parish Council Precepts	11	11
(Gains) / losses on the disposal of non - current assets	389	326
Total	400	337

9. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

	2014/15 £000	2015/16 £000
Interest payable and other similar charges	453	448
Net interest cost on the net pension liability	1,489	1,425
Interest receivable and similar income	(118)	(152)
Income and expenditure in relation to investment properties and changes in their fair value	(462)	(427)
Total	1,362	1,294

10. PROPERTY PLANT AND EQUIPMENT

2015/16	Other land and buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure £000	Community Assets £000	Surplus Assets £000	Total £000
Cost or Valuation						
At 1 st April 2015	19,356	4,868	3,391	2,885	3,145	33,645
Additions	888	232	6	838	97	2,061
Revaluation increases / (decreases) recognised in the Revaluation Reserve	62			(285)	(18)	(241)
Non-enhancing expenditure recognised in the Surplus / Deficit in the Provision of Services	(681)		(6)	(829)	(77)	(1,593)
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(2)			(940)		(942)
Derecognition - disposals		(122)	(2,290)		(121)	(2,533)
Assets reclassified (to) / from Held for Sale	182					182
Other movements in cost or valuation						
Cost at 31st March 2016	19,805	4,978	1,101	1,669	3,026	30,579
Accumulated Depreciation and Impairment						
At 1 st April 2015	222	2,966	3,377	153	121	6,839
Depreciation charge	584	474	4	79	133	1,274
Depreciation written out to the Revaluation Reserve	(41)			(83)	(18)	(142)
Depreciation written out to the Surplus / Deficit on the Provision of Services				(67)		(67)
Derecognition - disposals		(116)	(2,290)		(17)	(2,423)
Depreciation on Impairments						
Depreciation at 31st March 2016	765	3,324	1,091	82	219	5,481
Net book value at March 31st 2016	19,040	1,654	10	1,587	2,807	25,098
Net book value at March 31 st 2015	19,134	1,902	14	2,732	3,024	26,806

2014/15	Other land and buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure £000	Community Assets £000	Surplus Assets £000	Total £000
Cost or Valuation						
At 1st April 2014	24,246	4,374	3,391	3,500	3,559	39,070
Additions	1,237	662	16	828	468	3,211
Revaluation increases / (decreases) recognised in the Revaluation Reserve	(1,697)	0	0	(170)	(12)	(1,879)
Non-enhancing expenditure recognised in the Surplus / Deficit in the Provision of Services	(802)	0	(16)	(930)	(444)	(2,192)
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(3,325)	0	0	(13)	(18)	(3,356)
Derecognition - disposals	0	(168)	0	0	(408)	(576)
Assets reclassified (to) / from Held for Sale	(327)	0	0	(240)	0	(567)
Other movements in cost or valuation	24	0	0	(90)	0	(66)
Cost at 31st March 2015	19,356	4,868	3,391	2,885	3,145	33,645
Accumulated Depreciation and Impairment						
At 1 st April 2014	865	2,610	3,374	364	63	7,276
Depreciation charge	708	501	3	75	116	1,403
Depreciation written out to the Revaluation Reserve	(1,235)	0	0	(286)	(31)	(1,552)
Depreciation written out to the Surplus / Deficit on the Provision of Services	(116)	0	0	0	(3)	(119)
Derecognition - disposals		(145)			(24)	(169)
Depreciation on impairments						
Depreciation at March 2015	222	2,966	3,377	153	121	6,839
Net book value at March 31st 2015	19,134	1,902	14	2,732	3,024	26,806
Net book value at March 31 st 2014	23,381	1,764	17	3,136	3,496	31,794

Capital Commitments

At 31st March 2016 the Council had entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in future years budgeted at £4.612m. Similar commitments as at 31st March 2015 were £3.332m.

The major commitments are:

£1,461k	Rhyddings Park Project
£617k	Clusters of Empty Homes Programme
£500k	Sports Facility Lyndon Playing Fields
£495k	Transitional Housing Programme
£376k	Clearance Pendle Street
£280k	Norden Playing Field Development
£248k	Area Management Capital Improvement Schemes
£225k	5 a-side Football Cages

Effects of Changes in Estimates

In 2015/16 the Council made no material changes to its accounting estimates for Property, Plant and Equipment.

Revaluations

The Council carries out a rolling programme of valuations that ensures all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. Valuations are carried out as recommended by Cipfa and in accordance with the Statement of Asset Valuation Principles and Guidance Notes issued by the Royal Institution of Chartered Surveyors. Valuations in 2015/16 were carried out and certified by a team from DVS Valuation Office Agency, Manchester, led by Mr Bob Yardley MRICS, Principal Surveyor.

The significant assumptions applied in estimating fair value are:

- Operational land and properties are valued on the basis of current value in existing use, unless they are of a specialist nature in which case they are valued on a Depreciated Replacement Cost basis, or Market Value as applicable.
- Vehicles, plant and equipment values are based on historical cost less depreciation.
- Infrastructure and Community assets are included at historical cost, less any applicable depreciation, other than where Community Assets are at current value.
- Non-operational properties in full commercial use are valued by reference to their Market Value on the basis of net realisable value. Investment properties are valued on the basis of market value.

	Land & Buildings £000	Community Assets £000	Surplus Assets £000	Total £000
Valued at Current Value				
31 st March 2016	2,329	861	81	3,271
31 st March 2015	18,959	1,378	478	20,815
31 st March 2014	14,637	84	318	15,039
31 st March 2013	999	40	991	2,030
31 st March 2012	2,387	0	1,412	3,799

11. HERITAGE ASSETS

Reconciliation of the Carrying Value of Heritage Assets Held by the Council

	Art & Numismatics Collection £000	Numismatics Collection £000	Local & Community Collection £000	Glass Collection £000	Civic Regalia £000	Total £000
Cost or Valuation						
As at 31st March 2015	2,581	69	119	1,665	286	4,720
As at 31st March 2016	2,581	69	119	1,665	286	4,720

£14.5k was spent on the war memorial at Gatty Park and £8K on Aspen Colliery which was considered non-enhancing and therefore written out to the Comprehensive Income & Expenditure statement. There have been no disposals, revaluations or impairment losses in the last three years to 31st March 2016.

12. INVESTMENT PROPERTIES

The following items of income and expenditure have been accounted for in the Financing and Investment Income and Expenditure section in the Comprehensive Income and Expenditure Statement.

	2014/15 £000	2015/16 £000
Rental income from investment property	(582)	(607)
Direct operating expenses arising from investment property	145	204
Subtotal net (gain) / loss	(437)	(403)
Net (gains) / losses from fair value adjustments	(25)	(24)
Total income & expenditure in relation to investment properties & change in fair value	(462)	(427)

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

The movement in the fair value of investment properties is shown below:

	2014/15 £000	2015/16 £000
Balance at start of year	7,590	7,668
Additions	0	4
Disposals	0	0
Net gains / (losses) from fair value adjustments	25	24
Other changes	53	0
Balance at end of year	7,668	7,696

13. INTANGIBLE ASSETS

The Council accounts for purchased software licences as intangible assets. All software is given a finite useful life, based on assessments of the period that the software is expected to be of use. The carrying amount of intangible assets is amortised on a straight line basis.

The movement on the intangible asset balances during the year is as follows:

	2014/15 £000	2015/16 £000
Balance at start of year:		
Gross carrying amount	483	498
Accumulated amortisation	(338)	(376)
Net carrying amount at start of year	145	122
Purchases	16	19
Non-enhancing expenditure written out	0	0
Amortisation for the period	(39)	(42)
Net carrying amount at year end	122	99

Comprising:

	2014/15 £000	2015/16 £000
Balance at end of year:		
Gross carrying amount	498	517
Accumulated amortisation	(376)	(418)
Net carrying amount at year end	122	99

14. FINANCIAL INSTRUMENTS

Financial liabilities are classified as liabilities at amortised cost. Financial assets are classified as loans and receivables. Details of the carrying value of these instruments are provided in the balance sheet and these notes.

The fair value of the debtors and creditors (as shown in notes 16 and 19) are taken to be the invoiced or billed amount.

The fair value of investments maturing in the next twelve months is assumed to approximate to its carrying value.

The fair value of borrowing is determined by calculating the net present value of future cash flows. The discount rate is equal to the current rate available in relation to the same instrument from a comparable lender.

Categories of Financial Instruments

The fair value of each class of financial assets and liabilities which are carried in the balance sheet at amortised cost are disclosed below.

* restated	Long - Term				Current	
	31 March 2015		31 March 2016		31 March 2015	31 March 2016
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Carrying Amount £000
Investments						
Loans and receivables	359	359	359	359	18,029	23,065
TOTAL	359	359	359	359	18,029	23,065
Debtors						
Loans and receivables	208	208	345	345		
Financial assets carried at contract amount	0	0			2,851	2,132
Total	208	208	345	345	2,851	2,132
Borrowings						
Financial liabilities at amortised amount	9,807	12,543	9,804	12,716	80	79
Total	9,807	12,543	9,804	12,716	80	79
Creditors						
Financial liabilities carried at contract amount	0	0			1,838	1,653
Total	0	0			1,838	1,653

Long Term Debtors

	31 March 2015 £000	31 March 2016 £000
Mortgages on right to buy sales	3	3
Other housing advances	0	0
Leisure in Hyndburn Ltd	125	107
Car loans to employees	80	65
Employee scheme to purchase home technology equipment	0	11
Placefirst Ltd	0	159
Total	208	345

Material Soft Loans Made By the Council

Loan to the trust Leisure in Hyndburn (LiH)

The two loans to LiH are deemed to be material soft loans. They are interest free loans of £127k (loan 1 £76k; loan 2 £51k) repayable by monthly instalments ending in December 2020.

	2014/15 £000	2015/16 £000
Opening balance 1 st April	143	125
Nominal value of new loans granted in year	0	0
Loans repaid	(27)	(26)
Other changes	9	8
Closing balance at end of year	125	107
Nominal value at 31 st March	154	127

The interest rate at which the fair value of this soft loan has been made is arrived at by taking the authority's prevailing cost of borrowing (4.4% for loan 1 and 4.6% for loan 2) and adding an allowance for the risk that the loan might not be repaid by LiH in this case 2%.

Employees Car Loans

The Council makes loans for car purchase to 22 employees in the authority who are in posts that require them to drive regularly on the authority's business.

Interest is charged at different rates depending upon the emissions of the vehicle: < 1400cc 8.5%, 1400-1600cc 9% and > 1600cc 9.5%.

	2014/15 £000	2015/16 £000
Opening balance 1 st April	131	129
Nominal value of new loans granted in year	55	36
Loans repaid	(69)	(70)
Other changes – Interest Charged	12	10
Closing balance at end of year 31 st March	129	105

The interest rate at which fair values of these soft loans have been recognised is arrived at by taking the authority's prevailing cost of borrowing for a comparable loan at the date of the advance and adding an allowance for the risk that the loan might not be repaid.

Equity Share Loans (ESL) and Purchase Assistance Loans (PAL)

Hyndburn BC has made both ESL and PAL loans. Neither type of loan has a definite repayment or maturity date and is not included in the Balance Sheet. Details are in the table below.

Equity Share Loans	31 st March 2015			31 st March 2016	
	Year	No. of Loans	Value of Loans (£)	No. of Loans	Value of Loans (£)
	06/07	18	568,130	17	543,910
	07/08	14	429,080	14	427,640
	08/09	9	290,180	9	283,895
Total		41	1,287,390	40	1,255,445
Purchase Assistance Loans					
	09/10	3	37,220	3	37,220
	10/11	3	65,450	3	65,450
	11/12	2	37,200	1	30,000
Total		8	139,870	7	132,670

Borrowing

Summary as at 31 st March 2016	Principal Outstanding	Accrued Interest to 31 Mar	Adjustment: Effective Int. Rate Smoothing	Carrying Value TOTAL	Fair Value Total
	£000	£000	£000	£000	£000
<u>Long Term Borrowing</u>					
Money Market	9,520		209	9,729	12,641
Individuals	75			75	75
Total	9,595		209	9,804	12,716
<u>Short Term Borrowing</u>					
Money Market					
Money Market (L/T Loan)	0	79		79	82
Total	0	79		79	82
<u>Total Borrowing</u>					
Money Market	9,520	79	209	9,808	12,723
Individuals	75			75	75
Total	9,595	79	209	9,883	12,798

Summary as at 31 st March 2015	Principal Out- standing	Accrued Interest to 31 Mar	Adjustment: Effective Int. Rate Smoothing	Carrying Value TOTAL	Fair Value Total
	£000	£000	£000	£000	£000
<u>Long Term Borrowing</u>					
Money Market	9,520	0	212	9,732	12,468
Individuals	75	0	0	75	75
Total	9,595	0	212	9,807	12,543
<u>Short Term Borrowing</u>					
Money Market					
Money Market (L/T Loan)	0	0	0	0	0
Individuals	0	80	0	80	81
Total	0	80	0	80	81
<u>Total Borrowing</u>					
Money Market	9,520	80	212	9,812	12,549
Individuals	75	0	0	75	75
Total	9,595	80	212	9,887	12,624

15. INVENTORIES

	31 st March 2015 £000	31 st March 2016 £000
General fund - stock	52	41
Work in progress	0	0
Total	52	41

16. DEBTORS

	31 st March 2015 £000	31 st March 2016 £000
Central government bodies	524	399
Other local authorities	20	181
Other entities and individuals	7,764	7,091
Prepayments	215	199
Sub total	8,523	7,870
Bad debt provision	(3,962)	(4,181)
Total	4,561	3,689

17. ASSETS HELD FOR SALE

	31 st March 2015 £000	31 st March 2016 £000
Balance outstanding at start of year	2,536	3,036
Assets newly classified as held for sale:		
Property Plant and Equipment	566	(182)
Capital Expenditure	0	8
Write out non enhancing expenditure to I&E	0	(8)
Revaluation gains	0	155
Revaluation losses	0	0
Assets sold	(66)	(327)
Balance outstanding at year end	3,036	2,682

18. CASH AND CASH EQUIVALENTS

The balance of cash and cash equivalents is made up of the following elements:

	31 st March 2015 £000	31 st March 2016 £000
Cash in hand	4	4
Short term deposits	2,026	1,691
Bank balance / (overdraft)	(1,342)	(91)
Total Cash and Cash Equivalents	688	1,604

The bank balance amount has been removed from short term deposits and reported separately under bank overdraft.

19. CREDITORS

	31 st March 2015	31 st March 2016
	£000	£000
Central government bodies	(1,062)	(3,923)
Other local authorities	(2,366)	(3,496)
Other entities and individuals	(2,169)	(2,010)
Total	(5,597)	(9,429)

20. PROVISIONS

Provisions Summary	Balance at 1 st April 2015	Additional provisions made in 2015/16	Amounts used in 2015/16	Unused amounts reversed in 2015/16	Balance 31 st March 2016
	£000	£000	£000	£000	£000
Industrial units bonds deposits for leases	(14)				(14)
Insurance 'excess provision' for potential claims	(186)			60	(126)
Communities for health balance remaining on grant	(2)			2	0
ERDF potential claw back maintained until time barred	(99)				(99)
Provision for potential claims not able to be paid by Municipal Mutual Insurance Ltd following their financial difficulties	(35)		4		(31)
Provision for repayment of taxi licence fees incorrectly charged	(15)		1		(14)
Provision for appeals of non-domestic rates	(811)	(571)	260		(1,122)
Other	(7)	(19)			(26)
Total	(1,169)	(590)	265	62	(1,432)

21. USABLE RESERVES

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement.

22. UNUSABLE RESERVES

	31 st March 2015 £000	31 st March 2016 £000
Revaluation Reserve	16,007	15370
Capital Adjustment Account	15,551	14710
Financial Instruments Adjustment Account	(241)	(230)
Deferred Capital Receipts Reserve	3	2
Pensions Reserve	(45,792)	(38,478)
Collection Fund Adjustment Account	318	448
Accumulated Absences Account	(124)	(124)
Total Unusable Reserves	(14,278)	(8,302)

Revaluation Reserve

This reserve contains the gains made by the Council arising from increases in the value of the Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- Re-valued downwards or impaired and the gains are lost
- Used in the provision of services and the gains are consumed through depreciation; or
- Disposed of and the gains realised

This reserve contains only revaluation gains accumulated since 1st April 2007, the date the reserve was created. Accumulated gains arising before that date are consolidated into the balance of the Capital Adjustment Account.

	2014/15 £000	2015/16 £000
Balance at 1st April	16,795	16,007
<i>Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services</i>		
Upward revaluation of assets	2,544	372
Downward revaluation of assets and impairment losses not charged to the Surplus / Deficit on the Provision of services	(2,871)	(316)
Sub-total	(327)	56
Amount written out of reserve due to reclassification of surplus assets to investment properties	0	0
<i>Amount written off to the Capital Adjustment Account</i>		
Difference between fair value depreciation and historical cost depreciation	(424)	(363)
Accumulated gains on assets sold or scrapped	(37)	(330)
Sub-total	(461)	(693)
Balance at end of year	16,007	15,370

Capital Adjustment Account

The account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of these assets under statutory provisions.

The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside as finance for the costs of acquisition, construction and enhancement.

The account contains accumulated gains and losses on Investment properties. The account also contains revaluation gains accumulated on Property, Plant and Equipment before 1st April 2007, the date the Revaluation Reserve was created to hold such gains. Note 6 provides details of the source of all transactions posted to the Account, apart from those involving the Revaluation Reserve.

	2014/15 £000	2015/16 £000
Balance at 1st April	18,951	15,551
<i>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement</i>		
Charges for depreciation and impairment of non-current assets	(1,403)	(1,274)
Revaluation losses on Property, Plant and Equipment	(5,435)	(2,500)
Amortisation of intangible assets	(39)	(42)
Revenue expenditure funded from capital under statute	(1,335)	(1,047)
Non-current assets written off as part of the gain / loss on disposal of assets	(474)	(437)
Sub-total	(8,686)	(5,300)
<i>Capital financing applied in the year</i>		
Use of the Capital Receipts Reserve to finance new capital expenditure	324	0
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	1,181	1,247
Application of grants to capital financing from the Capital grants Unapplied Account	1,220	699
Accumulated gains on assets sold or scrapped		
Minimum Revenue Provision	609	580
Capital Expenditure Charged Against Revenue Account	1,466	1,216
Sub-total	4,800	3,742
Adjusting amounts written out of the Revaluation Reserve	461	693
Movements in the market value of Investment Properties charged against the Comprehensive Income and Expenditure Statement	25	24
Balance at end of year	15,551	14,710

Movements in the market value of Investment Properties have been removed from revaluation losses and reported separately.

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefitting from gains per statutory provisions.

	2014/15 £000	2015/16 £000
Balance at 1st April	(253)	(241)
Premiums incurred in the year and charged to the Comprehensive Income and Expenditure statement	(5)	(4)
Proportion of premiums incurred in previous financial years to be charged against the General Fund balance in accordance with statutory requirements	17	15
Sub total	12	11
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from the finance costs chargeable in year in accordance with statutory requirements		
Balance at end of year	(241)	(230)

Pensions Reserve

The reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to incorporate inflation, changing assumptions and investment returns on any resources set aside to meet costs.

However statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in benefits earned by past and current employees and the resources set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	2014/15 £000	2015/16 £000
Balance at 1st April	(35,104)	(45,792)
Actuarial gains or losses on pension assets and liabilities	(10,219)	8,109
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(2,984)	(3,302)
Employer's pensions contributions and direct payments to pensioners payable in the year	2,515	2,507
Balance at 31 March	(45,792)	(38,478)

Collection Fund Adjustment Account

The account manages the differences arising from the recognition of council tax and non-domestic rates income in the Comprehensive Income and Expenditure Statement as it falls due from the council tax payers and business rates payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

	2014/15 £000	2015/16 £000
Balance at 1st April	(526)	318
Amount by which council tax and non-domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from the council tax and non-domestic rates income calculated for the year in accordance with statutory requirements	844	130
Balance at end of year	318	448

Accumulated Absences Account

The Accumulated Absences Account absorbs differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year e.g. annual leave entitlement carried forward at 31st March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

	2014/15 £000	2015/16 £000
Balance at 1st April	(130)	(124)
Settlement or cancellation of accrual made at the end of the preceding year	130	124
Amounts accrued at the end of the current year	(124)	(124)
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	6	0
Balance at end of year	(124)	(124)

23. CASHFLOW STATEMENT – ADJUSTMENT FOR NON-CASH MOVEMENTS

i) Adjustments to net surplus or deficit on the provision of services for non-cash movements

	2014/15 £000	2015/16 £000
Depreciation	(1,403)	(1,274)
Impairment & downward valuations	(5,435)	(2,503)
Amortisation	(39)	(42)
(Increase)/ decrease in impairment provision for bad debts	(37)	(363)
(Increase)/decrease in creditors	(2,044)	(5,738)
Increase/(decrease) in debtors	934	(591)
Increase/(decrease) in stock	4	(11)
Pension liability	(469)	(795)
Carrying amount of non-current asset disposals	(473)	(437)
Other non-cash items charged to the net surplus or deficit on the provision of services	312	624
	(8,650)	(11,130)

ii) Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities:

	2014/15 £000	2015/16 £000
Proceeds from the sale of property, plant & equipment, investment property & intangible assets	293	225
	293	225

24. CASH FLOW STATEMENT – OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

	2014/15 £000	2015/16 £000
Interest received	(95)	(102)
Interest paid	455	452

25. CASH FLOW STATEMENT – INVESTING ACTIVITIES

	2014/15 £000	2015/16 £000
Purchase of property, plant and equipment, investment property and intangible assets	2,756	2,083
Purchase of short term and long term investments	26,000	22,500
Other payments for investing activities	171	368
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(293)	(226)
Proceeds from short term and long term investments	(26,000)	(17,500)
Other receipts from investing activities	(695)	(945)
Net cash flows from investing activities	1,939	6,280

26. CASH FLOW STATEMENT – FINANCING ACTIVITIES

	2014/15 £000	2015/16 £000
Cash receipts of short - and long – term borrowing	0	0
Other receipts from financing activities	(689)	(24)
Cash payments for the reduction of outstanding liabilities relating to finance leases and on balance sheet PFI contracts	160	144
Repayments of short – and long – term borrowing	1,500	0
Other payments for financing activities	1,197	1,940
Net cash flows from financing activities	2,168	2,060

27. AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the *Service Reporting Code of Practice*. However, decisions about resource allocation are taken by the Council's Cabinet on the basis of budget reports analysed across services. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- No charges are made in relation to capital expenditure except depreciation whereas revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement
- The cost of retirement benefits is based on cash flows (payment of employer's contributions) rather than current service cost of benefits accrued in year
- Certain contributions to and from reserves are included within service reports

Reconciliation of Service Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement

	2014/15 £000	2015/16 £000
Net Expenditure in the Service Analysis	10,780	10,639
Net expenditure of services and support services not included in the analysis		
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the analysis	3,139	1,619
Amounts included in the analysis not included in the Comprehensive Income and Expenditure Statement	1,416	813
Cost of services in Comprehensive Income and Expenditure Statement	15,335	13,071

The income and expenditure of the Council's principal services recorded in the budget reports for the year is as follows:

Service Income and Expenditure 2015/16								
	Planning & Transportation	Environmental Health	Waste Services	Parks & Open Spaces	& Culture Leisure	Regeneration & Housing & Property Services	& Policy Corporate Governance	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Fees, charges and other service income	(609)	(634)	(2,419)	(845)	(184)	(1,932)	(6,491)	(13,114)
Government Grants	(30)	(10)	0	0	(13)	(1,304)	(28,003)	(29,360)
Total Income	(639)	(644)	(2,419)	(845)	(197)	(3,236)	(34,494)	(42,474)
Employee expenses	635	551	2,376	1,001	97	1,494	4,473	10,627
Other operating expenses	378	129	2,158	743	727	2,067	30,562	36,764
Depreciation, Amortisation & Impairment	24	2	340	110	504	216	120	1,316
Support service recharges	270	533	423	192	136	610	2,242	4,406
Total Expenditure	1,307	1,215	5,297	2,046	1,464	4,387	37,397	53,113
Net Expenditure	668	571	2,878	1,201	1,267	1,151	2,903	10,639

Service Income and Expenditure 2014/15 Comparative Figures								
	Planning & Transportation	Environmental Health	Waste Services	Parks & Open Spaces	& Culture Leisure	Regeneration & Housing Services	& Policy Corporate Governance	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Fees, charges and other service income	(724)	(656)	(2,455)	(888)	(221)	(2,203)	(6,825)	(13,972)
Government Grants	(92)	(26)	0	0	(125)	(1,369)	(30,560)	(32,172)
Total Income	(816)	(682)	(2,455)	(888)	(346)	(3,572)	(37,385)	(46,144)
Employee expenses	622	489	2,353	986	95	1,400	4,647	10,592
Other operating expenses	538	132	2,202	822	923	2,254	33,256	40,127
Depreciation, Amortisation & Impairment	22	3	374	119	616	192	116	1,442
Support service recharges	283	559	422	200	187	630	2,482	4,763
Total Expenditure	1,465	1,183	5,351	2,127	1,821	4,476	40,501	56,924
Net Expenditure	649	501	2,896	1,239	1,475	904	3,116	10,780

This reconciliation shows how the figures in the analysis of service income and expenditure relate to a subjective analysis of the surplus or Deficit on the Provision of Services included in the Comprehensive Statement of Income and Expenditure.

Reconciliation to Subjective Analysis 2015/16	Service Analysis	Amounts not reported for decision making	Amounts not included in I& E	Allocation of Recharge	Net cost of services	Corporate Amounts	Total
	£000	£000	£000	£000	£000	£000	£000
Fees, charges and other service income	(13,114)	(335)	2,495	4,551	(6,403)	(2,498)	(8,901)
Interest and investment income						(152)	(152)
Income from council tax						(4,713)	(4,713)
Income from non-domestic rates						(2,549)	(2,549)
Government grants and contributions	(29,360)	(338)	636	0	(29,062)	(5,651)	(34,713)
Total Income	(42,474)	(673)	3,131	4,551	(35,465)	(15,563)	(51,028)
Employee expenses	10,627	(656)	(524)		9,447	1,949	11,396
Other service expenses	36,764	448	(1,316)	(145)	35,751	1,066	36,817
Support service recharges	4,406		(140)	(4,406)	(140)	140	0
Depreciation, amortisation and impairment	1,316	2,500	(338)		3,478	314	3,792
Interest payments						448	448
Precepts						11	11
Gain or Loss on disposal of fixed asset						212	212
Total Expenditure	53,113	2,292	(2,318)	(4,551)	48,536	4,140	52,676
Surplus or Deficit on the provision of services	10,639	1,619	813	0	13,071	(11,423)	1,648

Reconciliation to Subjective Analysis 2014/15	Service Analysis	Amounts not reported for decision making	Amounts not included in I& E	Allocation of Recharge	Net cost of services	Corporate Amounts	Total
	£000	£000	£000	£000	£000	£000	£000
Fees, charges and other service income	(13,972)	(75)	2,738	4,911	(6,398)	(2,458)	(8,856)
Interest and investment income						(118)	(118)
Income from council tax						(4,651)	(4,651)
Government grants and contributions						(2,887)	(2,887)
Total Income	(32,172)	(1,336)	982		(32,526)	(5,057)	(37,583)
Employee expenses	(46,144)	(1,411)	3,720	4,911	(38,924)	(15,171)	(54,095)
Other service expenses	10,592	(1,053)	(498)		9,041	1,987	11,028
Support service recharges	40,127	168	(1,285)	(148)	38,862	1,027	39,889
Depreciation, amortisation and impairment	4,763		(145)	(4,763)	(145)	145	0
Interest payments	1,442	5,435	(376)		6,501	351	6,852
Precepts						453	453
Gain or Loss on disposal of fixed asset						11	11
Total Expenditure						181	181
Surplus or Deficit on the provision of services	56,924	4,550	(2,304)	(4,911)	54,259	4,155	58,414
	10,780	3,139	1,416	0	15,335	(11,016)	4,319

28. TRADING OPERATIONS

The Council operates a MOT testing station and associated activities including a transport management organisation as internal trading accounts and markets in Accrington and Great Harwood as external trading accounts.

	2014/15			2015/16		
	Income	Expenditure	(Surplus) / Deficit	Income	Expenditure	(Surplus) / Deficit
	£000	£000	£000	£000	£000	£000
MOT / Stores / Depot	(1,161)	1,384	223	(1,109)	1,336	227
Markets	(558)	517	(41)	(523)	528	5
TOTAL	(1,719)	1,901	182	(1,632)	1,864	232

29. MEMBERS ALLOWANCES

The Council paid £277,441 to members of the Council during the year; in 2014/15 it paid £277,624.

30. OFFICERS REMUNERATION

The remuneration paid to the Council's senior officers is shown in the tables below. The first shows, the number of employees whose remuneration, excluding employer pension contributions, was £50,000 or more in bands of £5,000.

Remuneration	2014/15	2015/16
£50,000 - £54,999	2	4
£55,000 - £59,999	3	3
£60,000 - £64,999		
£65,000 - £69,999	1	
£70,000 - £74,999		1
£75,000 - £79,999		
£80,000 - £84,999		
£85,000 - £89,999		
£90,000 - £94,999		
£95,000 - £99,999	1	1
£100,000 - £104,999		
£105,000 - £109,999		
£110,000 - £114,999		
£115,000 - £119,999		1
£120,000 - £124,999		
£125,000 - £129,999	1	

The second table includes the post title and shows the remuneration paid to the same senior officers whose salary is £50,000 or more.

Post Holder Information	Salary, Fees & Allowances	Expense Allowances	Benefits in Kind	Employer Pension Contributions	Total Remuneration
	£	£	£	£	£
Chief Executive					
2015/16	116,144	271	1,962	32,805	151,182
2014/15	116,339	246	8,441	32,805	157,831
Deputy Chief Exec					
2015/16	94,695	68	5,179	26,538	126,480
2014/15	92,468	100	5,059	26,148	123,775
Exec Director (Legal & Democratic)					
2015/16	62,570	114	9,449	17,520	89,653
2014/15	61,050	10	8,669	17,262	86,991
Head of Planning & Transport					
2015/16	58,084	110		15,879	74,073
2014/15	57,037	319		15,586	72,942
Head of Environmental Partnerships					
2015/16	53,823	508		14,541	68,872
2014/15	52,436	1,368		14,328	68,132
Head of Housing & Regeneration					
2015/16	55,420	35	2,698	15,518	73,671
2014/15	53,348	174	2829	14,938	71,289
Head of Community Services					
2015/16	54,582	377		14,797	69,756
2014/15	52,638	472		14,224	67,334
Head of Benefits, Revenues & Customer Contact					
2015/16	51,934	150	4,026	14,541	70,651
2014/15	51,170	173	3,443	14,328	69,114
Head of Accountancy Services					
2015/16	52,757	109	1,007	14,541	68,414
2014/15	N/A	N/A	N/A	N/A	N/A

Post Holder Information	Salary, Fees & Allowances	Expense Allowances	Benefits in Kind	Employer Pension Contributions	Total Remuneration
Acting Head of Community Services					
2015/16	49,961	306	2,371	13,989	66,627
2014/15	N/A	N/A	N/A	N/A	N/A

There are salary sacrifice amounts for the Chief Executive £1016.

The number of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below.

Exit package cost band (incl. special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band (£)	
	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16
£0 - £20,000	1		4	4	5	4	52,414	26,744
£20,001 – £40,000				1		1		28,027
£40,001 – £60,000				1		1		47,599
£60,001 – £80,000			2		2		134,360	
£80,001 – £100,000								
£100,000 – £150,000								
Total	1		6	6	7	6	186,774	102,370

31. EXTERNAL AUDIT COSTS

The Council has incurred the following fees in relation to the audit of the Statement of Accounts, certification of grant claims and to non-audit services provided by the Council's external auditors:

	2014/15 £000	2015/16 £000
Fees payable with regard to external audit services carried out by the appointed auditor for the year	63	47
Fees payable for the certification of grant claims and returns	7	4
Rebate received as a result of the winding up of the Audit Commission	(6)	0
Total	64	51

The 14/15 fees payable with regard to external audit services carried out by the appointed auditor for the year has been split to show the rebate received separately.

32. GRANT INCOME

The following grants and contributions were credited to the Comprehensive Income and Expenditure Statement.

	2014/15 £000	2015/16 £000
<i>Credited to Taxation and Non Specific Grants</i>		
Revenue Support Grant	3,454	2,312
Efficiency Support Grant	0	1,272
Council Tax Support Funding	0	0
Small Business & Empty Property Rate Relief Grant	648	757
New Homes Bonus Grant	314	426
Council Tax Freeze Grant	188	295
Other	5	0
Sub Total	4,609	5,062
<i>Credited to Services</i>		
Housing benefit / Rent allowance subsidy	29,455	27,112
Housing benefit and council tax administration grant	554	484
Efficiency support Grant	1,272	223
Other housing benefit grant	422	346
Disabled facilities	369	432
Rogue landlords grant	0	112
Homelessness priority needs	61	61
Lottery grants	31	13
New Homes Bonus Grant	44	36
Council Tax Freeze Grant	54	0
Other grants	265	243
Total	32,527	29,062

33. RELATED PARTIES

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

Central Government

Central government is responsible for providing the statutory framework within which the Council operates. It provides the majority of the Council's funding in the form of grants, and prescribes the terms of many of the transactions that the Council has with other parties. Details of grant income are shown in note 32.

Other Public Bodies

Precept payments to Lancashire County Council, Lancashire Fire Authority and Lancashire Police and Crime Commissioner are shown in the Collection Fund, while the total precepts paid to Parish Councils are shown in note 8. Details of payments to the Pension Fund are shown in note 36.

Members & Officers

Members of the Council have direct control over the Council's financial and operating policies. The total of member allowances paid in 2015-16 is shown in note 29.

Some council members act in a number of capacities for related parties. This may include being employed by other local authorities, acting as a trustee or serving on the management board of companies and voluntary organisations. Members' interests in related parties have been included, where applicable, in the Register of Members Interests which is open to public inspection. There are no related party issues.

Under the Authority's Code of Conduct for Employees officers must declare any interests, financial and non-financial which could conflict with the authority's interests. No material declarations were made during the year.

Entities Influenced by the Council

Globe Enterprises Ltd is a property and investment company based in Accrington, Lancashire. The Council owns one third of the share capital of the company. The Council has also invested £710,000 of cash and £290,000 of land in the form of loans to Globe Enterprises to provide working capital for the company. The Council received a part repayment of £367,000 of the loans as a contribution to the development of Scaitcliffe House. Further repayments totalling £281,987 have been received to date leaving an outstanding balance of £351k at 31st March 2016 (£351k at 31st March 2015). No payments were made or received during 15/16 (£0 14/15).

Barnfield and Hyndburn Partnership undertakes property development. Stakes in the partnership are split 70% with Barnfield and Hyndburn and 30% with the Council. Their most recent set of accounts is up to December 2014 when they recorded a loss of £58,651 (Dec 2013 loss of £22,942); they had net assets of £148,216 (Dec 2013 net assets £204,867).

Barnfield and Hyndburn Ltd undertakes property development. Stakes in the company are split 70% with Barnfield and Hyndburn and 30% with the Council. Their most recent set of accounts is up to December 2014 when they recorded a profit of £106,796 (Dec 2013 profit of £183,836); they had net assets of £1,369,891 (Dec 2013 net assets ££1,263,095).

Leisure in Hyndburn is a trust set up to manage Hyndburn Borough Council's sport and leisure facilities. It also looks after the Council's arts and entertainment facilities and community buildings.

During 2015/16 the Council made payments to the Trust totalling £645,321 (£762,247 in 2014/15) of which £461,252 (£593,653 in 2014/15) was a management fee. The Council received payments from the Trust totalling £1,279,828 (£1,087,577 in 2014/15) for services provided by the Council and other recharges. At 31 March 2016 the Council owed the Trust £60 (£0 in 2014/15) and was owed £405,377 (£466,816 in 2014/15). The Council also has two loans with the Trust at 31 March 2016 reported in long term debtors, details are disclosed in note 14 Financial Instruments. The Trust is deemed to be influenced by the Council through its representation (one member) on the Trust Board.

34. CAPITAL EXPENDITURE AND CAPITAL FINANCING

The total amount of capital expenditure is shown in the table below (including the value of assets acquired under finance leases and long term contracts), together with the resources used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement, which is a measure of the capital expenditure incurred by the Council that has yet to be financed.

Restated*	2014/15 £000	2015/16 £000
Operating Capital Financing Requirement	*11,514	*11,282
<i>Capital Investment</i>		
Property, Plant and Equipment	3,216	2,061
Heritage Assets	0	23
Investment Property	0	4
Intangible Assets	16	19
Assets Held for Sale	0	8
Revenue Expenditure Funded from Capital under Statute	1,335	1,047
<i>Sources of Finance</i>		
Capital Receipts	(324)	0
Government grants and other contributions	(2,401)	(1,946)
Direct revenue contributions	(1,466)	(1,216)
Minimum Revenue Provision/Long-term liabilities	(608)	(580)
Closing Capital Financing Requirement	*11,282	10,702
<i>Explanation of Movement in Year</i>		
Assets acquired under finance leases	376	0
Minimum Revenue Provision/Long-term liabilities	(608)	(580)
Change in Capital Financing Requirement	(232)	(580)

35. LEASES

Authority as Lessee: Finance Leases

The Council has acquired a number of vehicles and items of equipment under finance leases. They have a net value of £396k in 2014/15 and £251k in 2015/16.

The Council is committed to making minimum payments under these leases comprising settlement of the long term liability and the finance costs that will be payable by the Council in future years

while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

	2014/15 £000	2015/16 £000
Finance lease liabilities (NPV of minimum lease payments)		
Current	144	120
Non-Current	252	131
Finance costs payable in future years	35	24
Minimum lease payments	431	275

The minimum lease payments will be payable over the following periods:

	2014/15 £000	2015/16 £000
Not later than one year	156	128
Later than one year and not later than five years	275	147
Later than five years	0	0
Total	431	275

Operating Leases

The Council has acquired fleet vehicles by entering into operating leases.

The future minimum lease payments due under non-cancellable leases in future years are:

	2014/15 £000	2015/16 £000
Not later than one year	0	0
Later than one year and not later than five years	10	8
Later than five years	0	0
Total	10	8

36. DEFINED BENEFIT PENSION SCHEMES

As part of the terms and conditions of employment of its officers, the Council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until the employees retire, the Council has a commitment to make the payments that need to be disclosed at the time that the employees earn their future entitlement.

The Council participates in the Local Government Pension Scheme which is administered by Lancashire County Council. This is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with the investment assets.

Transactions Relating to Post-employment Benefits

The Council recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are actually paid as pensions. However the charge we are required to make against council tax is based on the cash payable in the year so the real cost of post employment / retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement.

The following transactions have been made in the Comprehensive Income and Expenditure Statement and Movement in Reserves Statement:

	Local Government Pension Scheme	
	2014/15 £000	2015/16 £000
Comprehensive Income and Expenditure Statement		
Cost of Services		
Current service cost	1,340	1,731
Curtailments	128	119
Administration cost	27	27
Financing and Investment Income and Expenditure		
Net interest expense	1,489	1,425
Total post employment benefit charged to the Surplus or Deficit on the Provision of Services	2,984	3,302
<i>Other Post-employment Benefits charged to the Surplus or Deficit on the Provision of Services</i>		
Return on plan assets (excluding the amount included in the net interest expense)	(6,708)	(1,460)
Other Remeasurement of assets	0	
Actuarial (Gains) and Losses arising on changes in demographic assumptions	0	
Actuarial (Gains) and Losses arising on changes in financial assumptions	16,927	(6,649)
Experience (gain) / loss	0	
Total Remeasurements recognised in other comprehensive expenditure	10,219	(8,109)
Total post employment benefit charged to the Comprehensive Income and Expenditure Statement	13,203	(4,807)
Movement in Reserves Statement		
Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post employment benefits in accordance with the code	(2,984)	(3,302)
<i>Actual amount charged against the General Fund Balance for pensions in the year</i>		
Employers' contributions payable to scheme	2,515	2,507

Pension Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Council's obligation in respect of its defined benefit plan is as follows:

	Local Government Pension Scheme	
	2014/15 £000	2015/16 £000
Present value of the defined benefit obligation	136,459	131,627
Fair value of plan assets	(90,667)	(93,149)
Sub-total	45,792	38,478
Other movements in the liability (asset)	0	0
Net liability arising from defined benefit obligation	45,792	38,478

Reconciliation of the Movements in the Fair Value of Plan Assets

	Local Government Pension Scheme	
	2014/15 £000	2015/16 £000
Opening fair value of scheme assets	82,574	90,667
Interest income	3,585	2,872
<i>Remeasurement gain / (loss)</i>		
The return on plan assets, excluding the amount included in the net interest expense	6,708	1,460
Administration costs	(27)	(27)
Other remeasurement of assets	0	
Contributions from employer	2,515	2,507
Contributions from employees paid into the scheme	437	439
Benefits paid	(5,125)	(4,769)
Closing fair value of scheme assets	90,667	93,149

Reconciliation of Present Value of Plan Liabilities (Defined Benefit Obligation)

	Local Government Pension Scheme	
	2014/15 £000	2015/16 £000
Opening Balance at 1 April	117,678	136,459
Current service cost	1,340	1,731
Interest cost	5,074	4,297
Contributions by scheme participants	437	439
Remeasurement (gains) and losses:		
Actuarial gains and losses arising from changes in demographic assumptions	0	0
Actuarial gains and losses arising from changes in financial assumptions	16,927	(6,649)
Other	0	0
Past service costs / gains	0	
Losses / (gains) on curtailments	128	119
Benefits paid	(5,125)	(4,769)
Closing Balance	136,459	131,627

Local Government Pension Scheme assets comprised:

	Fair value of scheme assets	
	2014/15 £000	2015/16 £000
Cash and cash equivalents	2,029	3,203
Equity instruments		
<i>By industry type</i>		
consumer	10,298	10,118
materials	1,261	1,154
industrials	4,470	4,035
energy & utilities	1,435	1,172
financial institutions	5,519	5,650
health & care	3,166	3,380
info technology	5,915	6,506
miscellaneous	0	0
Sub total equity	32,064	32,015
Bonds		
<i>By sector</i>		
corporate	1,292	1,898
government	2,923	1,872
Sub total bonds	4,215	3,770
Property		
<i>By type</i>		
Retail	4,387	4,678
Commercial	4,384	4,276
Sub total property	8,771	8,954
Private Equity		
UK	2,338	1,519
Overseas	11,385	11,519
Sub-total private equity	13,723	13,038
Other investment funds		
Infrastructure	5,184	7,443
Credit funds	23,998	23,440
Property	683	1,286
Sub total other investment funds	29,865	32,169
Total Assets	90,667	93,149

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc.

The Local Government Pension Scheme has been estimated by Mercer Limited, an independent firm of actuaries, estimates for the County council Fund are based on the latest full valuation of the scheme as at 31st March 2016.

The significant assumptions used by the actuary have been:

Local Government Pension Scheme		
	2014/15	2015/16
Mortality Assumptions	Years	Years
Longevity at 65 for current pensioners		
men	22.9	23.0
women	25.4	25.6
Longevity at 65 for future pensioners		
men	25.1	25.2
women	27.8	27.9
	%	%
Rate of inflation	2.0	2.0
Rate of increase in salaries	3.5	3.5
rate of increase in pensions	2.0	2.0
Rate for discounting scheme liabilities	3.2	3.5

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above.

The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice this is unlikely to occur, and changes in some of the assumptions may be interrelated.

The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

Impact on the defined benefit obligation in the scheme

	Decrease in assumption £000	Increase in assumption £000
Longevity (increase or decrease in one year)		41,152
Rate of inflation (increase or decrease by 1%)		40,660
Rate of increase in salaries (increase or decrease by 1%)		38,873
Rate for discounting scheme liabilities (increase or decrease by 1%)		36,332

Impact on the Council's Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant rate as possible. The County Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over 19 years. Funding levels are monitored on an annual basis.

The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, the Local Government Pension Scheme in England and Wales and the other main existing public service schemes may not provide benefits in relation to service after 31st March 2014. The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants.

The weighted average duration of the defined benefit obligation for scheme members is 16 years (16 years in 2014/15)

37. CONTINGENT LIABILITIES

At 31st March the Council had the following material contingent liability:

Large Scale Voluntary Transfers Environmental Warranties

There may be potential liabilities arising to Hyndburn BC from the Large Scale Voluntary Transfer of 30th March 2006 and the terms of the housing stock transfer related agreement of the same date, subject to the respective limitations and obligations in the agreement. Initially the agreement was with Hyndburn Homes Ltd of Contour Housing Group, subsequently Contour Housing amalgamated with Vicinity Housing Group to form Symphony Housing Group. On the agreement the Council had:

- Taken out Environmental Site Liability Insurance up to £20m, via a single premium, for the period 25th July 2007 to 24th July 2017
- Established a reserve for LSVT – related Environmental Warranties which is increased by £250k per annum for at least ten years

38. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Council's activities expose it to a variety of financial risks:

- Credit Risk – the possibility that other parties might fail to pay amounts due to the Council.
- Liquidity risk – the possibility the Council might not have funds available to meet its commitments to make payments.
- Market Risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates and stock market movements.

The Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out within the Council's finance team under policies approved by the Council in the annual treasury management strategy.

The Council has adopted CIPFA's Treasury Management in the Public Services: Code of Practice and has set treasury management indicators to control key financial instrument risks.

When the Council considers the revenue budget and capital programme in March, it also approves the Treasury Management Strategy for the coming three years. The strategy covers:

- Current treasury position when reporting
- Expected movement in interest rates
- Council's borrowing and debt strategy
- Prudential indicators and limits on activity e.g. upper limits on variable rate exposure, upper limits on fixed rate exposure, gross limits for maturity structure of borrowing, maximum total principal sum invested for over 364 days
- Debt re-scheduling considerations

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to Council customers.

The risk is minimised through the annual investment strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria within the Council's treasury management practices. The Council maintains strict credit criteria for investment counterparties and monitors activity against these criteria. As a result of these high credit criteria there has been no experience of defaults.

The Council maintains an approved list of organisations for investment purposes, consisting of major banks, building societies and other local authorities. Maturity limits apply for each counterparty category and maximum investment limits also exist per counterparty and sector.

No breaches of the Council's counterparty criteria occurred during the reporting period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits.

The following analysis summarises the Council's potential maximum exposure to credit risk based on past experience and current market conditions.

	Amount at 31 st March 2016	Historical experience of default	Historical experience adjusted for market conditions	Estimated Maximum Exposure to Default and uncollectability
	£000	%	%	£000
Banks & Building Societies	1,685	0	0	0
Other Local Authorities & Govt Bodies	23,000	0	0	0
Sundry Debtors	1,748	2.66	2.66	47
Total	26,433	2.66	2.66	47

The Council does not generally allow credit for its sundry debtors. The sundry debtors outstanding which are past their due date for payment at 31st March 2016 can be analysed by age as shown in the table below.

Aged Sundry Debt – 31 st March 2016	£000
Less than 30 days	207
30 days to 59 days	104
60 days to 89 days	15
90 days to 119 days	13
120 + days	588
Total	927

Liquidity Risk

The Council has ready access to borrowings from the Public Works Loan Board for long term borrowing and the money markets to cover any day-to-day cash flow need. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

The Council manages its liquidity position through the risk management procedures above as well as through cash flow management procedures required by the Code of Practice.

The approved prudential indicator limits for the maturity structure of debt and the limits placed for greater than one year in duration are the key parameters used to address this risk. The Council approved treasury and investment strategy addresses the main risks and the accountancy section address the operational risks within the approved parameters. The maturity analysis of financial liabilities is as follows:

Financial Liabilities by Maturity Risk	31 st March 2015 £000	31 st March 2016 £000
Less than one year	9,751	9,723
Between 1 and 2 years	175	94
Between 2 and 5 years	100	53
Total	10,026	9,870

The risk of LOBO loans (£9.52m) being recalled is appropriately reflected by categorising the loans per the next call date. The final maturity dates of the LOBO loans are:-

£2.6m 31 July 2042

£5.4m 6 August 2054

£1.52m 25 November 2054

Market Risk

Interest rate risk

The Council has limited exposure to interest rate movements on its borrowings and investments.

Borrowings are not carried at fair value on the balance sheet, so nominal gains and losses on fixed rate borrowings would not impact on the surplus or deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in Other Comprehensive Income and Expenditure.

The aim of the prudential indicators is to contain the activity of the treasury function within certain limits thereby reducing the risk or likelihood of an adverse movement in interest rate or borrowing decisions that could impact negatively on the Council's overall financial position.

The accountancy section monitors market and forecast interest rates within the year to adjust exposure appropriately.

Price Risk

The Council, excluding the pension fund, does not generally invest in instruments with this type of risk.

Foreign Exchange Risk

The Council has no financial assets or liabilities denominated in foreign currencies and thus has no exposure to loss arising from movements in exchange rates.

COLLECTION FUND

The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates.

2014/15			Income & Expenditure Account			2015/16		
Business Rates £00	Council Tax £000	Total £000		Business Rates £000	Council Tax £000	Total £000		
	(31,898)	(31,898)	Income					
			Income from Council Tax		(32,792)	(32,792)		
	0		Transfer from General Fund					
(21,691)		(21,691)	Council Tax Benefits					
			Business rates	(21,143)		(21,143)		
(21,691)	(31,898)	(53,589)	Gross Income	(21,143)	(32,792)	(53,935)		
			Expenditure					
			Apportionment of previous year's (surplus)/ deficit:					
(770)		(770)	Central Government	(159)		(159)		
(139)	697	558	Lancashire County Council	(29)	873	844		
0	98	98	Lancashire Police & Crime Commissioner	0	123	123		
(15)	41	26	Lancashire Combined Fire Authority	(3)	50	47		
(616)	148	(468)	Hyndburn Borough Council	(128)	182	54		
(1540)	984	(556)	Precepts and Demands:	(319)	1,228	909		
10,306		10,306	Central Government	9,870		9870		
1,855	20,565	22,420	Lancashire County Council	1,777	21,290	23,067		
0	2,895	2,895	Lancashire Police & Crime Commissioner	0	2,997	2,997		
206	1,182	1,388	Lancashire Combined Fire Authority	197	1,222	1,419		
8,244	4,291	12,535	Hyndburn Borough Council	7,896	4,355	12,251		
20,611	28,933	49,544	Charges to the Collection Fund:	19,740	29,864	49,604		
132		132	Cost of collection	131		131		
(101)		(101)	Transitional Payment Protection	258		258		
44		44	Write offs	404	554	958		
(75)	511	436	Increase/decrease in bad debt provision	266	(95)	171		
1,256		1,256	Increase/decrease in provision for appeals	1,428		1,428		
(216)		(216)	Settlement of Appeals	(650)		(650)		
1,040	511	1,551		1,837	459	2,296		
20,111	30,428	50,539	Gross Expenditure	21,258	31,551	52,809		
(1,580)	(1,470)	(3,050)	(Surplus) for year	115	(1,241)	(1,126)		
1,636	(854)	782	(Surplus)/deficit as at 1 st April b/f	57	(2,324)	(2,267)		
56	(2,324)	(2,268)	(Surplus)/deficit as at 31 st March c/f	172	(3,565)	(3,393)		

National Non-Domestic Rates (NNDR)

NNDR is the business rate and is organised on a national basis. The government specifies an amount (49.3p in 2015/16 and 48.2p in 2014/15) and, subject to the effects of transitional arrangements, local businesses pay rates calculated by multiplying that amount by their rateable value.

With the introduction of the Business Rates Retention Scheme from 1st April 2013 councils will pass on to Central Government 50% of the collectable amount, retaining 40% themselves and passing 9% and 1% to the County Council and combined Fire and Rescue Authority respectively.

The Council's total non-domestic rateable value at the end of the financial year 2015/16 was £59.52m and £59.24m for 2014/15.

Council Tax

Council tax is due from residential properties based on the statutory national valuation band in which the property has been placed. The council tax is calculated by estimating the amount of income required from the collection fund by the Council and the Precepting authorities for the forthcoming year. This is divided by the council tax base i.e. the total number of equivalent Band D properties.

Band	Number of Dwellings	Discount	Factor	Band D Equivalent Whole Numbers
AA	36	2	5/9	19
A	15,665	2,608	6/9	8,705
B	4,762	467	7/9	3,341
C	4,849	368	8/9	3,983
D	2,442	139	9/9	2,303
E	794	45	11/9	916
F	250	17	13/9	337
G	152	16	15/9	226
H	4	1	18/9	6
Total				19,836
Collection Rate				95%
Tax Base				18,844

Surpluses and Deficits

The actual surplus or deficit on the council tax collected at the financial year end is apportioned and distributed between the billing and the precepting authorities in proportion to the value of their respective precepts on the collection fund. Any surplus is used to reduce future years council tax.

The amounts transferred in respect to each year's surplus or deficit are based on an estimate made mid-January and therefore do not relate directly to the balance shown in these accounts. Any difference between the estimate and the outturn is taken into account when estimating the surplus or deficit the following year.

Agenda

MUNICIPAL YEAR 2016-2017



HYNDBURN

The place to be
an excellent council

Audit Committee

Monday 27th June 2016 at 5.30 p.m
Queen Elizabeth Room, Scaitcliffe House

Membership

Chair: Councillor Noordad Aziz
Vice-Chair: Diane Fielding

Councillors:
Stephen Button, Julie Livesey, Bernadette Parkinson and Glen Harrison

AGENDA

1. Apologies for Absence, Declarations of Interest, Dispensations and Substitutions

2. Minutes of the Last Meeting

To submit the Minutes of the last meeting of the Audit Committee held on the 21st March 2016 for approval as a correct record.

Recommended - That the Minutes be received and approved as a correct record.

3. Risk Management Monitoring Report and Partnership Review

To inform Audit Committee of the outcome of the review of the Operational Risk Register and present to them the annual review of partnerships.

Recommended - That Audit Committee notes the contents of the report.



4. Annual Internal Audit Report & Audit Opinion 2015/16

The Head of Audit and Investigations submitted a report to inform and update Audit Committee on the Annual Internal Audit Report and Audit Opinion for 2015/16 and to give details on the performance of the Internal Audit Team and final outturn position for 2015/16.

Recommended - That the report be noted for informational purposes.

5. Public Sector Internal Audit Standards Self-Assessment and Quality Assurance & Improvement Programme

The Head of Audit and Investigations submitted a report to inform members of the updated self-assessment of the Public Sector Internal Audit Standards (PSIAS) carried out by the Head of Audit & Investigations and also the Quality Assurance and Improvement Programme (QAIP) which sets out how we manage any standards that are not compliant, thus ensuring conformance with the PSIA's overall.

Recommended - That Audit Committee notes the updated PSIAS Self-Assessment and updated QAIP.

6. Audit Reports & Key Issues- Progress Report for the Period April- June 2016

The Head of Audit and Investigations submitted a report to inform members of the Audit Committee of Audit Reports issued during the period April- June 2016 and bring to the attention of the Committee what the key issues were.

Recommended - That the report be noted for informational purposes.

7. Accounting Policies and Public Inspection of the Accounts

The Head of Accountancy submitted a report to request approval from members of the Audit Committee of the accounting principles which are used to prepare the statement of accounts for the financial year 2015/16 and to inform the Committee of the revised arrangements for the public inspection of the accounts.

Recommended - That the Audit Committee approves the accounting principles on which the 2015/16 accounts are prepared and notes the new rights of public inspection.

8. Capital Outturn Report 2015/16

The Head of Accountancy submitted a report to set out the financial spend on the Council's capital projects for 2015/16. It includes a proposed list of changes to the 2016/17 Capital Programme i.e. slippage from the previous year. The slippage will be funded from the amounts not spent but authorised in 2015/16.

Recommended - That Audit Committee approves the capital items of slippage from the 2015/16 programme.

9. Draft Statement of Accounts 2015/16

The Head of Accountancy submitted a report to inform Audit Committee Members of the outcome of draft Statement of Accounts 2015/16 for Hyndburn Borough Council.

Recommended - That Audit Committee note the Council's draft statement of Accounts for 2015/16.

10. Time/Date/Venue of Next Meeting of Committee

The next meeting of the Audit Committee is scheduled to be held on Monday 19th September 2016 at 5.30pm in the Queen Elizabeth Room at Scaitcliffe House.

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Dear Joe

Planned audit fee for 2016/17

The Local Audit and Accountability Act 2014 provides for the introduction of a new framework for local public audit. Under these provisions, the Audit Commission closed in March 2015 and the Secretary of State for Communities and Local Government delegated some statutory functions from the Audit Commission Act 1998 to Public Sector Audit Appointments Limited (PSAA) on a transitional basis.

PSAA will oversee the Commission's audit contracts for local government bodies until they end in 2018, following the announcement by the Department for Communities and Local Government (DCLG) that it will extend transitional arrangements until 2017/18. PSAA's responsibilities include setting fees, appointing auditors and monitoring the quality of auditors' work. Further information on PSAA and its responsibilities are available on the [PSAA website](#).

Scale fee

PSAA prescribes that 'scale fees are based on the expectation that audited bodies are able to provide the auditor with complete and materially accurate financial statements, with supporting working papers, within agreed timescales'.

There are no planned changes to the overall work programme for local government audited bodies for 2016/17, bar the adoption of new measurement requirements for the Highways Network Asset.

CIPFA/LASAAC is expected to confirm, subject to consultation, that the 2016/17 Code of Practice on Local Authority Accounting in the United Kingdom will adopt the measurement requirements of the CIPFA Code of Practice on Highways Network Asset.

PSAA have determined that there is no reliable and equitable way of establishing the volume of additional audit work, and therefore fees required, at each applicable local authority to gain assurance over the new financial reporting requirements. Therefore, fees for the additional work identified by auditors in 2016/17 will be subject to approval by PSAA under the normal fee variations process. PSAA expect that 'the additional fees for a highway authority will be in the range of £5,000 to £10,000, where authorities are able to provide the information required, and the auditor is able to rely on central assurance of the models in use. Fees for non-highway authorities with material highways infrastructure assets should be below £5,000 where the same conditions apply'.

PSAA have proposed that 2016/17 scale audit fees (excluding work completed on the Highways Network Asset) are set at the same level as the scale fees applicable for 2015/16. The Council's scale fee for 2016/17 has been set by PSAA at £46,927.

The audit planning process for 2016/17, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary as our work progresses.

Scope of the audit fee

Under the provisions of the Local Audit and Accountability Act 2014, the National Audit Office (NAO) is responsible for publishing the statutory Code of Audit Practice and guidance for auditors from April 2015. Audits of the accounts for 2016/17 will be undertaken under this Code, on the basis of the work programme and scale fees set out on the [PSAA website](#). Further information on the NAO Code and guidance is available on the [NAO website](#).

The scale fee covers:

- our audit of your financial statements
- our work to reach a conclusion on the economy, efficiency and effectiveness in your use of resources (the value for money conclusion)
- our work on your whole of government accounts return (if applicable).

As outlined above, the fee for any additional work in respect of the Highways Network Asset is not included in this fee.

PSAA will agree fees for considering objections from the point at which auditors accept an objection as valid, or any special investigations, as a variation to the scale fee.

Value for Money conclusion

The Code requires us to consider whether 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.

The NAO issued its guidance for auditors on value for money work in November 2015. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

The NAO 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.

Certification of grant claims and returns [if applicable]

The Council's indicative grant certification fee has been set by PSAA at £6,165. This fee covers the cost of certifying the housing benefit subsidy claim only and is based on final 2014/15 certification fees.

The indicative fee for certification work is based on the expectation that you provide the auditor with complete and materially accurate claims and returns, with supporting working papers, within agreed timeframes.

Assurance engagements for other schemes will be subject to separate arrangements and fees agreed between the grant-paying body, the Council and ourselves

Billing schedule

Fees will be billed as follows:

Main Audit fee	£
September 2016	11,734
December 2016	11,731
March 2017	11,731
June 2017	11,731
Total main audit fee	46,927
Grant Certification	
December 2017	6,165
Total	53,092

Outline audit timetable

We will undertake our audit planning and interim audit procedures in November 2016 to March 2017. Upon completion of this phase of our work we will issue a detailed audit plan setting out our findings and details of our audit approach. Our final accounts audit and work on the VfM conclusion and whole of government accounts return will be completed in July 2017.

Phase of work	Timing	Outputs	Comments
Audit planning and interim audit	November 2016 – March 2017	Audit plan	The plan summarises the findings of our audit planning and our approach to the audit of the Council's accounts and VfM.
Final accounts audit	June – July 2017	Audit Findings (Report to those charged with governance)	This report sets out the findings of our accounts audit and VfM work for the consideration of those charged with governance. We will complete our work in July 2017 and we will report to the next available audit committee.

VfM conclusion	January to July 2017	Audit Findings (Report to those charged with governance)	As above
Whole of government accounts	June – July 2017	Opinion on the WGA return	This work will be completed alongside the accounts audit.
Annual audit letter	October 2017	Annual audit letter to the Council	The letter will summarise the findings of all aspects of our work.
Grant certification	December 2017	Grant certification report	A report summarising the findings of our grant certification work

Our team

The key members of the audit team for 2016/17 are:

	Name	Phone Number	E-mail
Engagement Lead	Karen Murray	0161 234 6364	karen.l.murray@uk.gt.com
Engagement Manager	Tommy Rooney	0161 214 6359	tommy.o.rooney@uk.gt.com
In Charge Auditor	Sophia Iqbal	0161 234 6372	sophia.s.iqbal@uk.gt.com

Additional work

The scale fee excludes any work requested by the Council that we may agree to undertake outside of our Code audit. Each additional piece of work will be separately agreed and a detailed project specification and fee agreed with the Council.

Quality assurance

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively you may wish to contact Sarah Howard, our Public Sector Assurance regional lead partner, via sarah.howard@uk.gt.com.

Yours sincerely

Grant Thornton UK LLP.

For Grant Thornton UK LLP

Audit Committee
Progress and Update Report for
Hyndburn Borough Council
Year ended 31 March 2016

8 June 2016

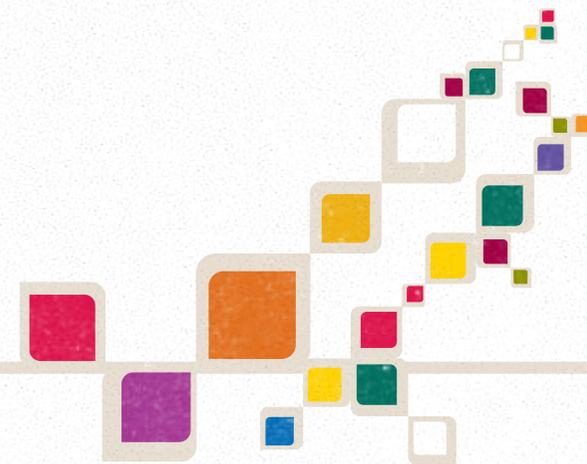
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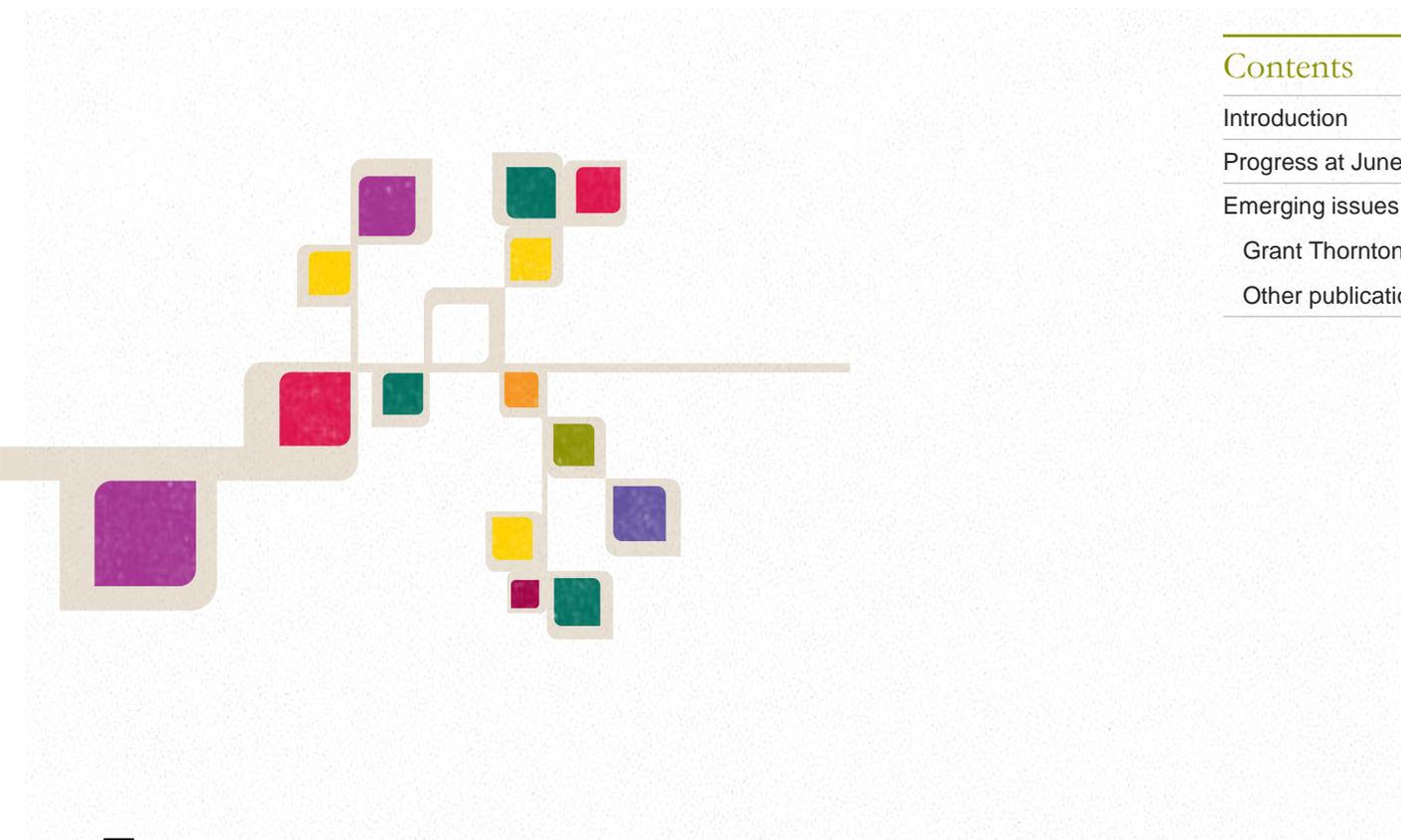
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. 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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Introduction

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

Members of the Audit and Accounts Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications including:

- Better Together: Building a successful joint venture company;
<http://www.grantthornton.co.uk/en/insights/building-a-successful-joint-venture-company/>
- Knowing the Ropes – Audit Committee; Effectiveness Review ;
www.grantthornton.co.uk/en/insights/knowing-the-ropes--audit-committee-effectiveness-review-2015/
- Making devolution work: A practical guide for local leaders (October 2015)
www.grantthornton.co.uk/en/insights/making-devolution-work/

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.



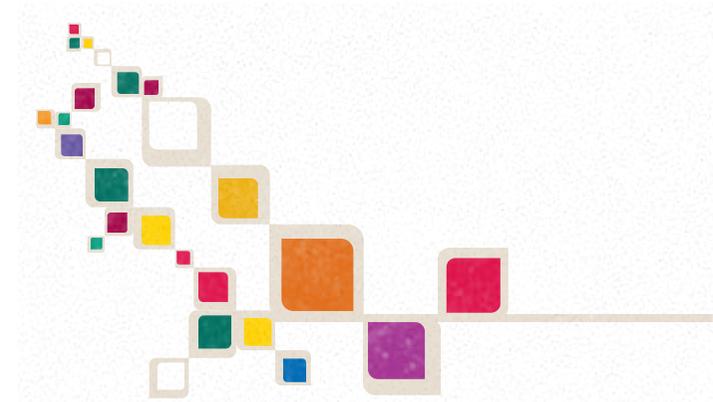
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Progress at 8 June 2016



 **Progress against plan**
On track

 **Opinion and VfM conclusion**
Plan to give by deadline of 30 September 2016

 **Outputs delivered**
Fee letter, Audit Plan, Progress Reports, delivered to plan

2015/16 work

Completed Comments

Fee Letter

We issued the 'Planned fee letter for 2015/16 in April 2015.

April 2015

We have also recently issued the fee letter for 2016/17, with no change to the fee proposed. This is reported to this meeting of the Audit Committee.

Accounts Audit Plan

We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2015-16 financial statements.

April 2016

The plan is to be presented to the audit committee meeting on 27 June 2016.

We also inform you of any subsequent changes to our audit approach.

Interim accounts audit

Our interim fieldwork visit includes:

- updating our review of the Council's control environment
- updating our understanding of financial systems
- review of Internal Audit reports on core financial systems
- early work on emerging accounting issues
- early substantive testing

March 2016

An update on work completed is included in the accounts audit plan. There were no issues arising from our work that we need to bring to the attention of 'those charged with governance' (the Audit Committee).

Better Together: Building a successful joint venture company

Local government is evolving as it looks for ways to protect front-line services. These changes are picking up pace as more councils introduce alternative delivery models to generate additional income and savings.

'Better together' is the next report in our series looking at alternative delivery models and focuses on the key areas to consider when deciding to set up a joint venture (JV), setting it up and making it successful.

JVs have been in use for many years in local government and remain a common means of delivering services differently. This report draws on our research across a range of JVs to provide inspiring ideas from those that have been a success and the lessons learnt from those that have encountered challenges.

Key findings from the report:

- JVs continue to be a viable option – Where they have been successful they have supported councils to improve service delivery, reduce costs, bring investment and expertise and generate income
- There is reason to be cautious – Our research found a number of JVs between public and private bodies had mixed success in achieving outcomes for councils
- There is a new breed of JVs between public sector bodies – These JVs can be more successful at working and staying together. There are an increasing number being set up between councils and wholly-owned commercial subsidiaries that can provide both the commercialism required and the understanding of the public sector culture.

Our report, Better Together: Building a successful joint venture company, can be downloaded from our website: <http://www.grantthornton.co.uk/en/insights/building-a-successful-joint-venture-company/>

Grant Thornton reports



ALTERNATIVE SERVICE DELIVERY MODELS IN LOCAL GOVERNMENT

Better together
Building a successful
joint venture company



Fighting Fraud and Corruption Locally

CIPFA publication

Fighting Fraud and Corruption Locally is a strategy for English local authorities that is the result of collaboration by local authorities and key stakeholders from across the counter fraud landscape .

This strategy is the result of an intensive period of research, surveys, face-to-face meetings and workshops. Local authorities have spoken openly about risks, barriers and what they feel is required to help them improve and continue the fight against fraud and to tackle corruption locally.

Local authorities face a significant fraud challenge. Fraud costs local authorities an estimated £2.1bn a year. In addition to the scale of losses, there are further challenges arising from changes in the wider public sector landscape including budget reductions, service remodelling and integration, and government policy changes. Local authorities will need to work with new agencies in a new national counter fraud landscape.

The strategy:

- calls upon local authorities to continue to tackle fraud with the dedication they have shown so far and to step up the fight against fraud in a challenging and rapidly changing environment
- illustrates the financial benefits that can accrue from fighting fraud more effectively
- calls upon central government to promote counter fraud activity in local authorities by ensuring the right further financial incentives are in place and helping them break down barriers to improvement
- updates and builds upon Fighting Fraud Locally 2011 in the light of developments such as The Serious and Organised Crime Strategy and the first UK Anti-Corruption Plan
- sets out a new strategic approach that is designed to feed into other areas of counter fraud and corruption work and support and strengthen the ability of the wider public sector to protect itself from the harm that fraud can cause.

The strategy can be downloaded from

<http://www.cipfa.org/services/counter-fraud-centre/fighting-fraud-and-corruption-locally>





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The Audit Plan for Hyndburn Borough Council

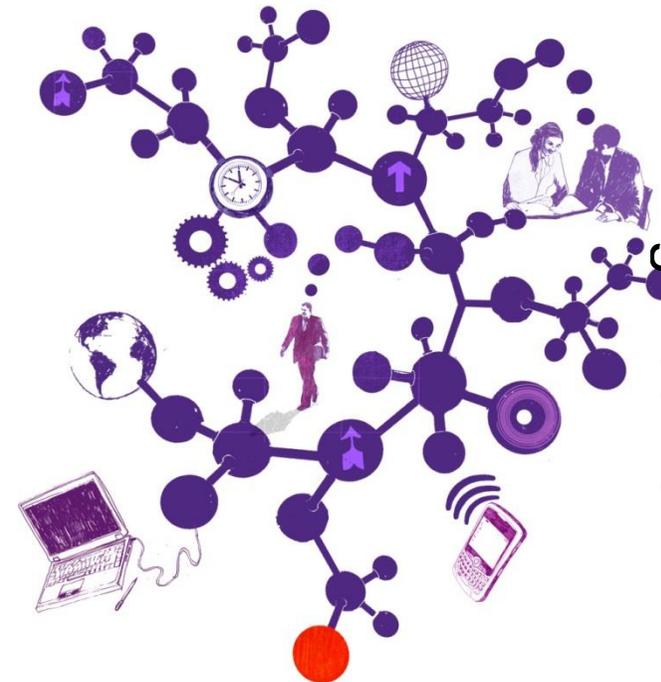
Year ending 31 March 2016

13 April 2016

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Agenda Item 14.

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. 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.

Hyndburn Borough Council

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13 April 2016

Dear Members of the Audit Committee

Audit Plan for Hyndburn Borough Council for the year ending 31 March 2016

This Audit Plan sets out for the benefit of those charged with governance (in the case of Hyndburn Borough Council, the Audit Committee), an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Council and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with the Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015.

Our responsibilities under the Code are to:

- give an opinion on the Council's financial statements
- satisfy ourselves the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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.

Yours sincerely

Karen Murray
Engagement Lead

Chartered Accountants

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Communication of audit matters with those charged with governance

Understanding your business

In planning our audit we need to understand the challenges and opportunities the Council is facing. We set out a summary of our understanding below.

Challenges/opportunities

1. Autumn Statement 2015 and financial health

- The Chancellor proposed that local government would have greater control over its finances, although this was accompanied by a 24% reduction in central government funding to local government over 5 years.
- Despite the opportunities for increased control, the financial health of the sector is likely to become increasingly challenging.
- The Council has a reduction in its resources of £235k in 2016/17 compared to the previous year with costs increasing by £666k. The Council forecasts savings required of £901k in 2016/17, £1,800k in 2017/18 and £2,200k in 2018/19.



2. Devolution

- The Autumn Statement 2015 also included proposals to devolve further powers to localities.
- In Lancashire there is a movement towards a combined authority. Consultation has been undertaken on the combined authority and the Council is involved in shaping this development for Lancashire.



3. Earlier closedown of accounts

- The Accounts and Audit Regulations 2015 require councils to bring forward the approval and audit of financial statements to 31 May and 31 July respectively by the 2017/18 financial year.



Our response

We will:

- consider the Council's plans for addressing its financial position as part of our work to reach our VFM conclusion.

We will:

- consider your plans as part of the local devolution agenda in reaching our VFM conclusion.
- provide support and challenge to your plans, if required, based on our knowledge of devolution elsewhere in the country.

We will:

- work with you to identify areas of your accounts production where you can learn from good practice in other authorities.
- complete all substantive work in our audit of your financial statements by 31 August 2016 as a 'dry run'.

Developments and other requirements relevant to your audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice and associated guidance.

Developments and other requirements

1. Fair value accounting

- A new accounting standard on fair value (IFRS 13) has been adopted and applies for the first time in 2015/16.
- This will have a particular impact on the valuation of surplus assets within property, plant and equipment which are now required to be valued at fair value in line with IFRS 13 rather than the existing use value of the asset.
- Investment property assets are required to be carried at fair value as in previous years.
- There are a number of additional disclosure requirements of IFRS 13.



2. Corporate governance

- You are required to produce an Annual Governance Statement (AGS) as part of your financial statements.



3. Narrative Statement

- The Accounts and Audit Regulations 2015 require local authorities to produce a Narrative Statement, which reports on your financial performance and use of resources in the year, and replaces the explanatory foreword.



Our response

We will:

- keep the Council informed of changes to the financial reporting requirements for 2015/16 through ongoing discussions and invitations to our technical update workshops.
- discuss this with you at an early stage, including reviewing the basis of valuation of your surplus assets and investment property assets to ensure they are valued on the correct basis.
- review your draft financial statements to ensure you have complied with the disclosure requirements of IFRS 13.

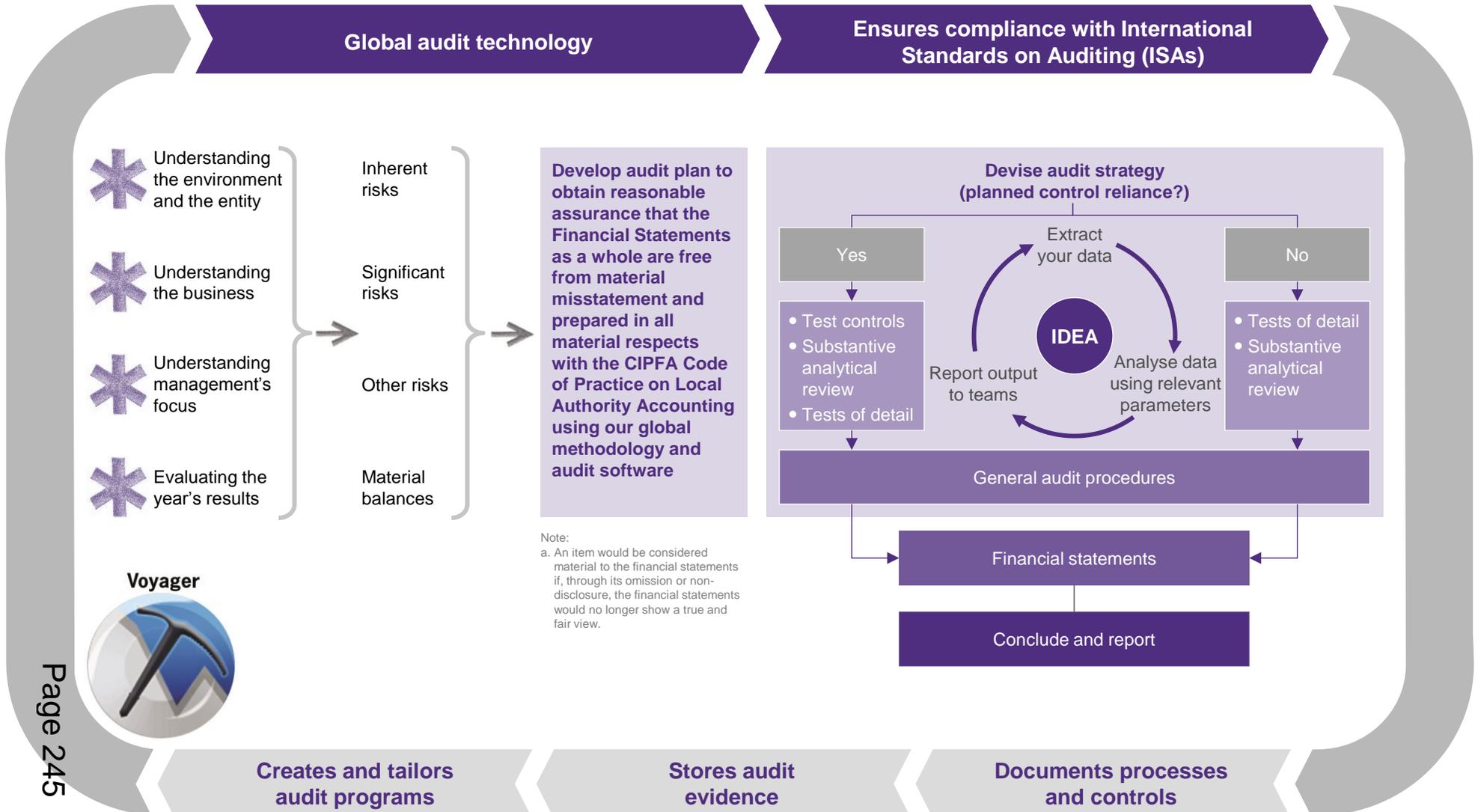
We will:

- review your arrangements for producing the AGS and consider whether it is consistent with our knowledge of the Council and the requirements of CIPFA guidance.

We will:

- review your Narrative Statement to ensure it reflects the requirements of the CIPFA Code of Practice when this is updated, and make recommendations for improvement.

Our audit approach



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 is usual in public sector entities, we have determined materiality for the statements as a whole as a proportion of the gross revenue expenditure of the Council. For purposes of planning the audit we have determined overall materiality to be £1,085k (being 2% of gross revenue expenditure) We will consider whether this level is appropriate during the course of the audit and will advise you if we revise this.

Under ISA 450, auditors 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 accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £54k.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'.

We have identified the following as sensitive items but have not set a separate materiality level for them. We will discuss any errors identified with a view to requesting amendment but will consider the individual significance depending on the nature of the error.

Balance/transaction/disclosure	Explanation
Cash and cash equivalents	All transactions made by the Council affect the 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.
Disclosure of related party transactions in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.

Significant risks identified

"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 315). In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing - ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	<p>Under ISA 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 Hyndburn Borough Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Hyndburn Borough Council, mean that all forms of fraud are seen as unacceptable.
The expenditure cycle includes fraudulent expenditure recognition	Practice Note 10 recommends that auditors of public sector bodies consider the risk of fraudulent financial reporting from the manipulation of expenditure recognition in order to inappropriately match expenditure with available resources.	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Updated our understanding and documentation of the processes and controls in place to account for operating expenses and completed a walkthrough of key controls. • Substantive testing of a sample of operating expenses or the first eleven months of the year to supporting evidence to ensure valid spend. <p>Further work planned:</p> <ul style="list-style-type: none"> • Substantive testing of a sample of operating expenses for month twelve and year end payables/accruals to supporting evidence to ensure valid spend. • Search for unrecorded liabilities by completing cut off testing on post year end payments.
Management over-ride of controls	Under ISA 240 it is presumed that the risk of management over-ride of controls is present in all entities.	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Documented journal controls and completed a walkthrough <p>Further work planned:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries • Review of unusual significant transactions

Significant risks identified (continued)

Significant risk	Description	Substantive audit procedures
Valuation of property, plant and equipment including surplus assets and investment property	<p>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 current value. This represents a significant estimate by management in the financial statements.</p> <p>The CIPFA Code of Practice has implemented IFRS 13 for the 2015/16 financial statements. The Council is required to include surplus assets within property, plant and equipment in its financial statements at fair value, as defined by IFRS13. The basis on which fair value is defined for investment property is also different to that used in previous years.</p> <p>This represents a significant change in the basis for estimation of these balances in the financial statements. There are also extensive disclosure requirements under IFRS 13 which the Council needs to comply with.</p>	<p>Work completed to date:</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. <p>Further work planned:</p> <ul style="list-style-type: none"> Review of the instructions issued to valuation experts and the scope of their work Review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding. Testing of revaluations made during the year to ensure they are 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 has satisfied themselves that these are not materially different to current value. Review of the disclosures made by the Council in its financial statements to ensure they are in accordance with the requirements of the CIPFA Code of Practice and IFRS 13.
Valuation of pension fund net liability	The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.	<p>Work planned:</p> <ul style="list-style-type: none"> Identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. Review the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out. Undertake procedures to confirm the reasonableness of the actuarial assumptions made. Review the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.

Other risks identified

"The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures" (ISA (UK & Ireland) 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other risks	Description	Audit approach
Operating expenses	Creditors understated or not recorded in the correct period (Operating expenses understated)	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Documentation of processes and controls; • Evaluation and walkthrough of controls; • Tested a sample of transactions for the first eleven months of the year to supporting evidence. <p>Further work planned:</p> <ul style="list-style-type: none"> • Test the year-end reconciliation of the accounts payable system to the general ledger; • Review post year end payments to identify any unrecorded liabilities; • Understand management's accrual process and test significant accruals; • Test a sample of transactions for month twelve of the year and year end payables to supporting evidence. • Review in-year and post year end payments to identify whether the transactions have been recorded in the correct financial year.
Employee remuneration	Employee remuneration accruals understated (Remuneration expenses not correct)	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Review the systems and controls that the Council has in place to ensure that its employees are paid the correct amount based on hours worked and their contractual entitlement, including arrangements to accrue for amounts outstanding but not yet paid at the year-end. • Walk-through the controls the Council has in place in relation its payroll system • Sample tested payroll transactions for the year to ensure they have been correctly recorded <p>Further work planned:</p> <ul style="list-style-type: none"> • Substantive testing of significant year end payroll accruals • Analytical procedures to identify any discrepancies in monthly payrolls and consideration as to whether payroll expenditure is in line with our expectations based on supporting evidence • Testing of the reconciliation between the payroll system and the amounts recorded in the financial statements.

Other risks identified (continued)

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in the previous section but will include:

- Heritage assets
- Assets held for sale
- Investments (long term and short term)
- Cash and cash equivalents
- Borrowing and other liabilities (long term and short term)
- Provisions
- Usable and unusable reserves
- Movement in Reserves Statement and associated notes
- Statement of cash flows and associated notes
- Financing and investment income and expenditure
- Taxation and non-specific grants
- Segmental reporting note
- Officers' remuneration note
- Related party transactions note
- Capital expenditure and capital financing note
- Financial instruments note
- Collection Fund and associated notes
- Funds held on trust note

Other audit responsibilities

- We will undertake work to satisfy ourselves that disclosures made in the Annual Governance Statement are in line with CIPFA/SOLACE guidance and consistent with our knowledge of the Council.
- We will read the Narrative Statement and check that it is consistent with the statements on which we give an opinion and disclosures are in line with the requirements of the CIPFA Code of Practice.
- We will carry out work on consolidation schedules for the Whole of Government Accounts process in accordance with NAO instructions to auditors.
- We will give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts

Value for Money

Background

The Local Audit & Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') require us to consider whether 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.

The National Audit Office (NAO) issued its guidance for auditors on value for money work in November 2015 [here](#).

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.

The guidance 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.

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

Sub-criteria	Detail
Informed decision making	<ul style="list-style-type: none"> Acting in the public interest, through demonstrating and applying the principles and values of good governance Understanding and using appropriate cost and performance information to support informed decision making and performance management Reliable and timely financial reporting that supports the delivery of strategic priorities Managing risks effectively and maintaining a sound system of internal control.
Sustainable resource deployment	<ul style="list-style-type: none"> Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions Managing assets effectively to support the delivery of strategic priorities Planning, organising and developing the workforce effectively to deliver strategic priorities.
Working with partners and other third parties	<ul style="list-style-type: none"> Working with third parties effectively to deliver strategic priorities Commissioning services effectively to support the delivery of strategic priorities Procuring supplies and services effectively to support the delivery of strategic priorities.

Value for Money (continued)

Risk assessment

We completed an initial risk assessment based on the NAO's guidance. In our initial risk assessment, we considered:

- our cumulative knowledge of the Council, including work performed in previous years in respect of the VfM conclusion and the opinion on the financial statements.
- the findings of other inspectorates and review agencies
- any illustrative significant risks identified and communicated by the NAO in its Supporting Information.
- any other evidence which we consider necessary to conclude on your arrangements.

We have identified significant risks which we are required to communicate to you. The NAO's Code of Audit Practice defines 'significant' as follows:

A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.

We have set out overleaf the risks we have identified, how they relate to the Code sub-criteria, and the work we propose to undertake to address these risks.

Value for money (continued)

We set out below the significant risks we have identified as a result of our initial risk assessment and the work we propose to address these risks.

Significant risk	Link to sub-criteria	Work proposed to address
<p>Financial position and future year savings</p> <p>The Council is facing a continued period of austerity. The updated medium term financial strategy 2016/17 to 2018/19 reported in February 2016 indicates that the Council will need to find further savings and efficiencies of £4.9m over the three years of the plan.</p> <p>Savings proposals were set out in the revenue budget for 2016/17 that was approved by Council in February 2016. Progress in delivery will be monitored through existing budget monitoring and reporting arrangements.</p>	<p>This links to the Council's arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and using appropriate cost and performance information to support informed decision making.</p>	<p>We will review:</p> <ul style="list-style-type: none"> • the reasonableness of assumptions in the updated MTFS • the Council's arrangements for identifying and agreeing savings plans • financial and budget reporting to Members • the out-turn position for 2015/16 and the budget plan for 2016/17 <p>We will also meet with key officers to discuss key strategic challenges and the Council's proposed response.</p>

Reporting

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report and Annual Audit Letter.

We will include our conclusion as part of our report on your financial statements which we will give by 30 September 2016.

Results of interim audit work

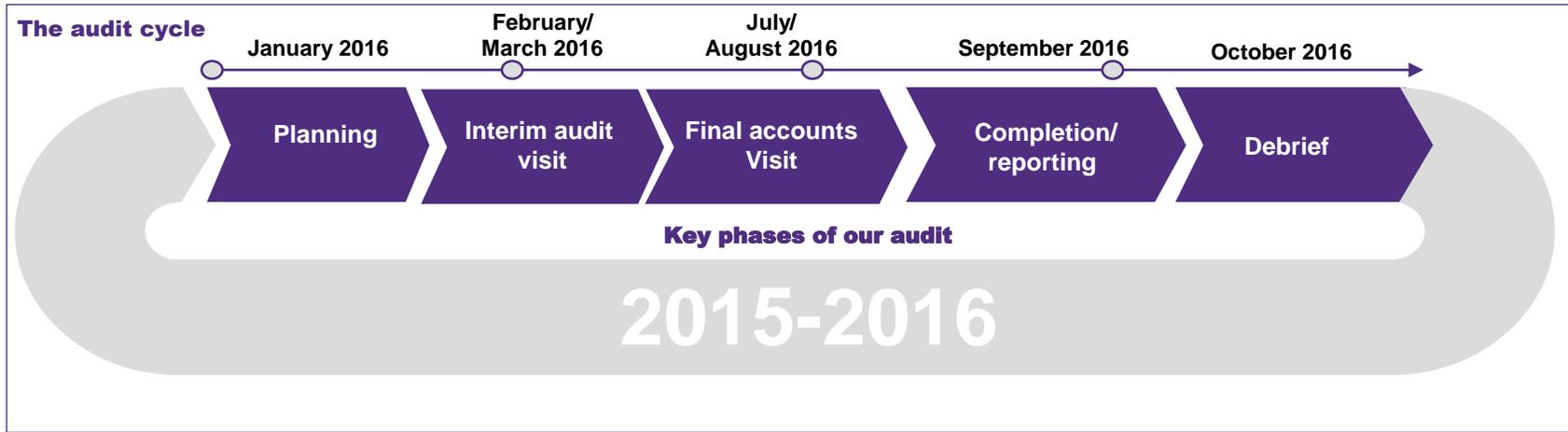
The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed	Conclusion
Internal audit	<p>We have completed a high level review of internal audit's overall arrangements.</p> <p>We have also reviewed internal audit's work on the Council's key financial systems to date.</p>	<p>Overall, we have concluded that the internal audit service provides an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment.</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p>
Entity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices 	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements</p>

Results of interim audit work (continued)

	Work performed	Conclusion
Review of information technology (IT) controls	Our information systems specialist is performing a high level review of the general IT control environment, as part of the overall review of the internal controls system. This is to provide assurance that IT controls have been observed to have been implemented in accordance with our documented understanding.	Our work to date has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.
Walkthrough testing	We have completed walkthrough tests of the Council's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements. This includes the payroll, accounts payable and housing benefits systems.	Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Council in accordance with our documented understanding. Our work has not identified any weaknesses which impact on our audit approach.
Journal entry controls	We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy.	We have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements. Our work has not identified any weaknesses which impact on our audit approach. We will undertake detailed testing on journal transactions recorded in the year by extracting 'unusual' entries for further review.

Key dates



Date	Activity
January 2016	Planning
February/March 2016	Interim site visit
June 2016	Presentation of audit plan to Audit Committee
July/August 2016	Year end fieldwork
September 2016	Report audit findings to those charged with governance (Audit Committee)
By 30 September 2016	Sign financial statements opinion

Fees and independence

Fees

	£
Council audit	46,927
Grant certification	4,224
Total audit fees (excluding VAT)	51,151

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list.
- The scope of the audit, and the Council and its activities, have not changed significantly.
- The Council will make available management and accounting staff to help us locate information and to provide explanations.
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

Grant certification

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

Fees for other services

Service	Fees £
Audit related and non-audit services	Nil

Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter

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 Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings Report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Communication of audit matters with those charged with governance

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

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings Report will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

Respective responsibilities

This plan 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 and includes nationally prescribed and locally determined work (<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 the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓



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