

The Audit Findings for Hyndburn Borough Council

Year ended 31 March 2016

14 September 2016

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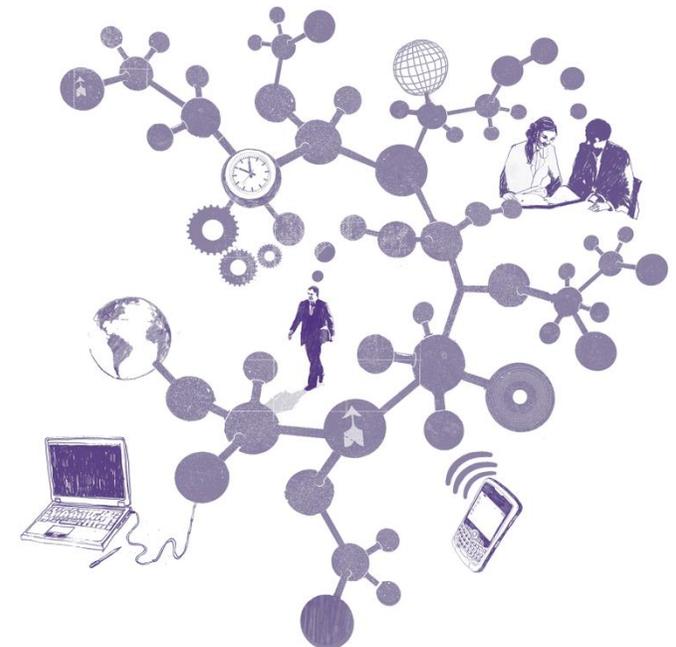
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14 September 2016

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

This Audit Findings report highlights the key findings arising from the audit for the benefit of those charged with governance (in the case of Hyndburn Borough Council, the Audit Committee), as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with officers.

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

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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

Yours sincerely

Karen Murray

Chartered Accountants

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Section 1: Executive summary

01. Executive summary

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Purpose of this report

This report highlights the key issues affecting the results of Hyndburn Borough Council ('the Council') and the preparation of the group and Council financial statements for the year ended 31 March 2016. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. .

We are also required to consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with required guidance.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').

Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period.

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

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);

- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act)

We have not been required to apply any of the above powers and duties.

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

Introduction

After issuing our Audit Plan on 13 April 2016 we have had to alter our audit approach when it was identified that the Council needed to produce group accounts in respect of its interests in three associate companies. We are still completing the work required before we can issue our opinion on the group accounts.

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

- business rates income and the appeals provision
- audit work on the group accounts when they are produced by the Council
- assessment of the auditors of the accounts of the three associate companies to ensure we can place reliance on their work
- review of the final version of the financial statements
- obtaining and reviewing the management letter of representation
- review of the final version of the Annual Governance Statement and
- updating our post balance sheet events review, to the date of signing the opinion
- Whole of Government Accounts

Key audit and financial reporting issues

Financial statements opinion

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

- We have identified no adjustments affecting the Council's reported financial position. The draft financial statements of the Council for the year ended 31 March 2016 recorded a deficit on the provision of services of £1,648k; this remains unchanged following our audit.
- The Council is currently in the process of preparing group accounts which are required to reflect its interests in 3 associated companies to comply with the requirements of the CIPFA code and accounting standards.
- Various other amendments have been made following our audit in respect of disclosure and classification changes required. These have no impact on the Council's reported financial position for 2015/16.
- We received draft financial statements on 17 June 2016 and accompanying working papers on 14 July 2016 and we started our audit on site on 1 August 2016. The working papers provided did not fully meet the requirements set out in our arrangements letter which we issued to Finance on 29 March 2016. Additional working papers were therefore requested and obtained during the on-site visit.
- Prior to our on-site visit we also requested a full list of staff leave during the audit period. We were provided with a schedule on 18 July 2016. However, subsequently key members of Finance took leave during the audit period that was not included in it, causing some delays in the completion of our work.

Looking ahead, the Council will face a significant challenge in meeting the earlier close deadlines for the accounts that come into force for the 2017/18 financial year unless there are improvements in the arrangements for preparing working papers and supporting the audit process.

Further details of audit work completed and matters arising are set out in section two of this report.

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B).

Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes:

- if the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit.

Controls

Roles and responsibilities

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

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

Findings

We draw your attention in particular to a control issue identified in relation to budget holders identifying year end accruals. Our testing of expenditure between March and May 2016 identified two payments made in April and May 2016 that were incorrectly accounted for as 2016/17 expenditure when they relate to 2015/16. Further details are provided within section two of this report.

Value for Money

Based on our review, we are satisfied that, in all significant respects, the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

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

Other statutory powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

Further details of our work on other statutory powers and duties is set out in section four of this report.

Grant certification

In addition to our responsibilities under the Code, we are required to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. At present our work on this claim is in progress and is not due to be finalised until 30 November 2016. We will report the outcome of this certification work through a separate report which we will issue by February 2017 and present to a future meeting of the Audit Committee.

The way forward

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

We have made a number of recommendations, which are set out in the action plan at Appendix A. Recommendations have been discussed and agreed with the Deputy Chief Executive and the finance team.

Acknowledgement

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

Grant Thornton UK LLP
14 September 2016

Section 2: Audit findings

01. Executive summary

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05. Communication of audit matters

Materiality

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

As we reported in our audit plan, we determined overall materiality to be £1,085k (being 2% of gross revenue expenditure in the 2014/15 audited accounts). We have considered whether this level remained appropriate during the course of the audit and have maintained our materiality at 2% but based on gross revenue expenditure in the 2015/16 draft accounts, the amount is reduced to £971k.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £48k, which is 5% of the overall materiality. Our assessment of the value of clearly trivial matters has been adjusted to reflect our revised materiality calculation.

As we reported in our audit plan, we identified the following as sensitive items that were material by nature rather than size.

Balance/transaction/disclosure	Explanation and findings
Cash and cash equivalents	<p>All transactions made by the Council affect the balance and it is therefore considered to be material by nature.</p> <p>Our audit did not identify any issues in relation to cash and cash equivalents.</p>
<p>Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements</p> <p>Disclosure of auditors' remuneration in notes to the statements</p> <p>Disclosure of related party transactions in notes to the statements</p>	<p>Due to public interest in these disclosures and the statutory requirement for them to be made.</p> <p>Our audit identified an error in the Benefits in Kind in Note 30 for the Exec Director (Legal & Democratic) which was disclosed as £9,449 when it should be £9,287. This has been amended.</p> <p>We did not identify any other issues in relation to these areas.</p>

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (UK&I) 315).

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

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including the Council, mean that all forms of fraud are seen as unacceptable. 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p>The expenditure cycle includes fraudulent expenditure recognition</p> <p>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 match inappropriately expenditure with available resources.</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 and year end payables and accruals to supporting evidence to ensure valid spend. • Searched for unrecorded liabilities by completing cut off testing on post year end payments. 	<p>Our sample testing of payments made after 31 March 2016 identified two payments accounted for in 2016/17 that should have been accounted for in 2015/16. Further details are provided on page 12.</p> <p>No other issues were identified in respect of operating expenses.</p>
3.	<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<ul style="list-style-type: none"> • Documented journal controls and completed a walkthrough • Reviewed accounting estimates, judgments and decisions made by management • Tested journal entries • Reviewed unusual significant transactions 	<p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We did not identify any unusual significant transactions.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

Audit findings against significant risks continued

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

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
4	<p>Valuation of property, plant and equipment (PPE) including surplus assets and investment property</p> <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 the 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.</p> <p>The basis on which fair value is defined for investment property is also different to that used in previous years. 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>	<ul style="list-style-type: none"> Review of management's processes and assumptions for the calculation of the estimate. Review of the competence, expertise and objectivity of any management experts used. Review of the instructions issued to valuation experts and the scope of their work Review and challenge of the information used by the valuer to ensure it was robust and consistent with our understanding. Testing of revaluations made during the year to ensure they were input correctly into the Council's asset register Evaluation of the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value. 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 IFRS13. 	<p>Our audit work has not identified any issues that we need to bring to your attention.</p>
5	<p>Valuation of pension fund net liability</p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.</p>	<ul style="list-style-type: none"> Documentation of the key controls that were put in place by management to ensure that the pension fund liability was not materially misstated. Walkthrough of the key controls to assess whether they were implemented as expected and mitigate the risk of material misstatement in the financial statements. Review of the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation. Gaining an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made. Review of the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. 	<p>Our audit work has not identified any issues that we need to bring to your attention.</p>

Audit findings against other risks

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

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses	Creditors understated or not recorded in the correct period (Operating expenses understated)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented and confirmed our understanding of processes and controls evaluated and walked through controls tested a sample transactions during the year to supporting evidence tested the year end reconciliation of the accounts payable system to the general ledger reviewed management's process for identifying and processing accruals and tested significant accruals tested a sample of year end payables to supporting evidence reviewed in-year and post year end payments in April and May 2016 to identify whether the transactions have been recorded in the correct financial year and identify any unrecorded liabilities in the 2015/16 accounts. 	<p>Between March and May 2016 the Council made payments totalling £5.4m. We tested a sample of 44 of these payments with a total value of £1.56m to ensure they had been accounted for correctly. Two of the payments tested, with a total value of £8k, should have been included as accruals in 2015/16 but were not identified by the budget holders and so were accounted for in 2016/17.</p> <p>Although our testing did not indicate a significant error in the accounts for 2015/16, budget holders should be reminded of the need to ensure year end accruals are identified so that expenditure is accounted for in the correct year.</p>
Employee remuneration	Employee remuneration accruals understated (Remuneration expenses not correct)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented and confirmed our understanding of processes and controls evaluated and walked through controls sample tested payroll transactions for the year to ensure they have been correctly recorded tested significant year end payroll accruals completed a month-by-month trend analysis on payroll costs to identify any unusual fluctuations tested the year-end reconciliation of the payroll system to the general ledger 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

New issues and risks identified during the course of the audit

This section provides commentary on new issues and risks which were identified during the course of the audit and were not previously communicated in the Audit Plan

	Issue	Commentary
1.	<p>We identified that the Council needs to produce group accounts for its investments in associates, using equity accounting, in accordance with the requirements of Chapter 9 of the Code of Practice on Local Authority Accounting, IFRS10 (Consolidated Financial Statements) and IAS28 (Investments in Associates and Joint Ventures).</p>	<ul style="list-style-type: none"> On 12 August 2016, the Head of Accountancy Services provided us with the Council's assessment of the need for group accounts in respect of its three associate companies, Globe Enterprises Ltd., Barnfield and Hyndburn Development Partnership and Barnfield and Hyndburn Ltd. In its assessment, the Council concluded that group accounts were not required. Paragraph 9.1.1.6 of the Code requires that "Authorities with interests in subsidiaries, associates and/or joint ventures shall prepare Group Accounts in addition to their single entity financial statements, unless their interest is considered not material." Our review of the information available indicated the Council has significant influence over each of the three companies and so they meet the definition of "associates". This is because significant influence is indicated by a holding of more than 20% of the voting power of an investee. The Council holds 33% voting rights in respect of Globe and 30% in respect of each of the other two companies. The Council also has board representation at all three, Our initial review of the financial information available indicated that producing group accounts using the equity accounting method for the three associates would result in material differences with the Council's single entity accounts. On 2 September 2016, the Council provided us with their own assessment of the differences that would result from accounting for the three associates using equity accounting. This also indicated material differences in the Council's balance sheet. We have discussed this with the Deputy Chief Executive and on 9 September he agreed that group accounts would be produced for the Council's investments in its associates, using equity accounting. At the time of reporting we are awaiting receipt of the draft group accounts and supporting notes and disclosures. We will then complete the work required for us to issue our opinion.

Group audit scope and risk assessment

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

Component	Significant?	Level of response required under ISA 600	Risks identified	Work completed	Assurance gained & issues raised
Globe Enterprises Ltd	Yes	Comprehensive	None	Full scope UK statutory audit performed by Ainsworth Ltd.	We will review the consolidated group accounts when they are produced by the Council's Finance team. We will also assess the work of the auditors of the component companies to ensure we can place reliance on them.
Barnfield and Hyndburn Development Partnership	Yes			Full scope UK statutory audit performed by Pierce C.A. Ltd.	
Barnfield and Hyndburn Ltd.	Yes			Full scope UK statutory audit performed by Pierce C.A. Ltd.	

Accounting policies, estimates and judgements

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

Accounting area	Summary of policy	Comments	Assessment
<p>Revenue recognition</p>	<ul style="list-style-type: none"> Government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that the Council will comply with the conditions attached to the payments, and the grants or contributions will be received. Revenue from the 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. 	<ul style="list-style-type: none"> The Council's accounting policy is appropriate under IAS 18 Revenue and CIPFA's Code of Practice on Local Government Accounting 2015-16. We are satisfied that the Council has recognised income in accordance with its accounting policies. Revenue recognition policies are appropriately disclosed. 	 <p>Green</p>
<p>Judgements and estimates</p>	<p>Key estimates and judgements include:</p> <ul style="list-style-type: none"> pension fund valuations and settlements revaluation, depreciation and impairment of PPE provisions and accruals, including business rate appeals and bad debt provisions, and fair value of financial instruments group accounts 	<ul style="list-style-type: none"> The Council's policies on estimates and judgements are reasonable and appropriately disclosed.. The Council has appropriately relied on the work of experts for asset revaluations, pension fund valuations and financial instrument fair values. We discussed with the Deputy Chief Executive and the Monitoring Officer whether the Council should disclose a contingent liability in respect of a claim brought by another local authority in respect of the Empty Homes Programme. However, they confirmed the Council has concluded such a disclosure is not required because it considers the likelihood of this becoming an actual obligation to be remote. This is clearly a matter of judgement and we have asked for confirmation of this in the letter of representation. As explained on page 13 above, the Council has revised its initial judgement that group accounts are not required and is currently preparing them for audit in respect of its interest in three associate companies. 	 <p>Amber</p>

Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
Going concern	The Deputy Chief Executive, s151 officer has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Council's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2015/16 financial statements.	 Green
Other accounting policies	We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.	Our review of accounting policies in Note 1 highlighted that paragraph xviii. Property, Plant and Equipment did not explain the Council's policy for the recognition of asset components. This has now been added.	 Green

Assessment

-  Marginal accounting policy which could potentially attract attention from regulators
-  Accounting policy appropriate but scope for improved disclosure
-  Accounting policy appropriate and disclosures sufficient

Other Matters

In this section we report other matters which have come to our consideration of other aspects of the Council's accounts.

Element of accounts	Comments
Narrative Report	<p>The Accounts and Audit Regulations 2015 introduced a requirement for Authorities to produce a narrative report to complement the financial statements. The narrative report replaces the explanatory foreword. This is the first year the Council has been required to produce this report. CIPFA published an update to the 2015/16 Code of Accounting Practice earlier this year which included suggested content for the narrative report.</p> <p>We have reviewed the Council's narrative report and, following the agreement of some additional disclosures, we are satisfied that it meets the minimum requirements. However, looking forward to next year, management have agreed to consider including more detailed non-financial performance information.</p>

Other communication requirements

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

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any incidents in the period. No other issues have been identified during the course of our audit procedures.
2.	Matters in relation to related parties	<ul style="list-style-type: none"> From the work we carried out, we have not identified any related party transactions which have not been disclosed.
3.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations. We have not identified any incidences from our audit work.
4.	Written representations	<ul style="list-style-type: none"> A letter of representation has been requested from the Council, including specific representations in respect of the Group. We have asked for a specific representations in respect of the assumptions made in deciding that a contingent liability disclosure is not required in respect of a claim brought by another local authority in respect of the Empty Homes Programme.
5.	Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send confirmation requests for bank balances, loans and investments. This permission was granted and the requests were sent to a number of institutions. All were returned with positive confirmation.
6.	Disclosures	<ul style="list-style-type: none"> Our review identified an omission in relation to the new disclosures required for the introduction of IFRS13 regarding the fair value hierarchy of financial assets and liabilities. These have now been included in Note 14 Financial Instruments. Further details and a summary of disclosure and classification changes are included at pages 21 to 22.

Other communication requirements continued

	Issue	Commentary
7.	Matters on which we report by exception	<ul style="list-style-type: none"> • We are required to report on a number of matters by exception in a number of areas: • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit • If the information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Group/Council acquired in the course of performing our audit, or otherwise misleading. <p>We have not identified any issues we would be required to report by exception in the above areas.</p> <p>We reviewed both the Annual Governance Statement and Narrative Report and noted a small number of points for amendment and inclusion in the final versions of both documents. Further details are provided in the table at page 22.</p>
8.	Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <ul style="list-style-type: none"> • Note that work is not required as the Council does not exceed the threshold.

Internal controls

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

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

The controls were found to be operating effectively and we have no matters to report to the Audit Committee

Misclassifications and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Disclosure	n/a	Balance sheet	'*restatement' at the top of the 31 st March 2015 column has been deleted.
2 Disclosure	n/a	Note 1 Accounting policies xvii. Property, Plant and Equipment	The useful economic life for Vehicles and Plant was disclosed as 2-10 years but has been amended to 2-14 years to reflect the useful life used for plant at leisure centres.
3 Disclosure	n/a	Note 2 Accounting standards that have been issued but not yet adopted	The note did not disclose all the relevant standards that are outlined in LAAP Bulletin 104 and so details of the following have been added: <ul style="list-style-type: none"> • IAS 19 Employee Benefits (Defined Benefit Plans: Employee Contributions) • IFRS 11 Joint Arrangements (Accounting for Acquisitions of Interests in Joint Operations) • IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets • IAS 1 Presentation of Financial Statements (Disclosure Initiative)
4 Disclosure	n/a	Note 4 Assumptions made about the future and other major sources of estimation uncertainty	Details of sensitivity analysis added for arrears and provisions
5 Disclosure	n/a	Note 14 Financial instruments	'*restated' at the top of the first table has been deleted. A 'fair value hierarchy' table has been added for financial assets and liabilities which are not held on balance sheet at fair value.

Misclassifications and disclosure changes

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
6	Disclosure	(0.162)	Note 30 Officers' remuneration	The Benefits in Kind for the Executive Director (Legal & Democratic) was incorrectly stated and so has been reduced from £9,449 to £9,287.
7	Disclosure	19	Note 33 Related parties	<p>Payments received from Leisure in Hyndburn £1,279,828 amended to £1,298,766.84.</p> <p>Amounts disclosed for Barnfield and Hyndburn Partnership and Barnfield and Hyndburn Ltd. from their accounts at December 2014 have been updated for amounts in their accounts at December 2015, which were issued in August 2016.</p>
8	Disclosure	2,406	Note 36 Defined benefit pension schemes	The estimated employer's contribution for 2016/17 £2,406k, as notified in the actuary report, had not been disclosed and so has now been added to Note 36.
9	Disclosure	n/a	Note 37. Contingent liabilities	<p>The £1,122k provision for business rates appeals (note 20) does not include any provision for appeals not lodged because the Council has concluded that it is unlikely to be material. The following disclosure has been added to note 37 to explain this:</p> <p>"Business Rates Appeals: As part of the legislation concerning the collection of business rates, successful appeals against local rateable values are met by Hyndburn Council. A provision has been established to meet the cost of successful appeals. It is possible though that new appeals may arise during the course of the year. Since they will have arisen after the provision was calculated they will not form part of its total estimate. Consequently if they were upheld, they would constitute a further liability for the Council."</p>
10	Disclosure	n/a	Annual governance statement	Various typographical and narrative amendments and some additional detail added, including removal of the reference to the Council publishing an Annual Report, which is incorrect..
11	Disclosure	n/a	Narrative Report	Various typographical and narrative amendments and some additional detail added to meet the suggested content in the update to the 2015/16 Code of Accounting Practice.

Section 3: Value for Money

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

Background

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

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

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2015. AGN 03 identifies one single criterion for auditors to evaluate:

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

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

Risk assessment

We carried out an initial risk assessment in April 2016 and identified the following significant risks, which we communicated to you in our Audit Plan dated 13 April 2016.:

Financial position and future year savings

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. 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.

We identified risks in respect of specific areas of proper arrangements using the guidance contained in AGN03.

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

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment.

Significant qualitative aspects

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

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

- how the Council is planning and managing its finances to support the sustainable delivery of strategic priorities

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

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

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

Any other matters

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

Overall conclusion

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

- the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources. The text of our report, which confirms this can be found at Appendix B.

Key findings

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

Significant risk	Work to address	Findings and conclusions
<p>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. 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>We reviewed:</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 also met with key officers to discuss key strategic challenges and the Council's proposed response.</p>	<p>The current and forecast outturn revenue position and individual service performance is reported to Cabinet. The reports include performance against budget and forecast outturn overall and for each service group, their individual risks and pressures and actions being taken to address them. Financial forecasts fluctuated during the year, with a year-end surplus of £10k forecast in June 2015 rising to £180k in October 2015, before being reduced to £81k in December, rising again to £188k in January 2016 before increasing in subsequent months with a final year end outturn surplus of over £916k reported in June 2016.</p> <p>The half-year capital position was reported to Cabinet in October 2015 and the year end outturn in June 2016. At year end total capital spend was £3.212m against a maximum approved programme of £11.1m with slippage of £4.6m capital expenditure to be carried forward to 2016/17. For 2015/16, the council set a minimum level of general fund reserves of £2.4m. At 31 March 2016 the actual general fund reserves balance was £3.037m, £0.6m above the minimum level set by the Council. The MTFS for 2016/17 suggests a minimum level of reserves required of £2m.</p> <p>The 2016/17 budget and medium term financial strategy to 2018/19 was prepared by the Deputy Chief Executive in consultation with services. It was considered by Cabinet and then debated at and approved by Council in February 2016. The 2016/17 revenue budget identified savings, efficiencies and additional income required of £872k and set out the measures planned by services to achieve this. We considered the assumptions underpinning the latest medium financial strategy and confirmed that the assumptions made were reasonable and sufficiently prudent.</p> <p>Savings measures are identified within services and considered and approved by the Corporate Management Team, the portfolio holder and Cabinet members before being incorporated into the medium financial strategy for formal approval by Cabinet and Council, after which they are deducted from budgets.</p> <p>The MTFS forecasts further savings required of £1.9m in 2017/18 and £2.2m in 2018/19. In the period to 31 May 2016 the Council has a year to date revenue surplus of £42k and forecasts a year end surplus of £132k.</p> <p>Our review of the savings included in the 2016/17 budget confirmed that sufficient measures are in place to deliver savings targets.</p> <p>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements</p>

Section 4: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services aside from the certification of grants in accordance as part of the fees set by Public Sector Audit Appointments Ltd..

Fees

	Proposed fee £	Final fee £
Council audit	46,927	46,927
Grant certification	4,224	4,224
Total audit fees (excluding VAT)	51,151	51,151

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.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

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

Grant certification

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

Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Communication to those charged with governance

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

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

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

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

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

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

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

Appendices

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1.	Management should ensure we are provided with a complete set of working papers at the start of our final accounts audit, in accordance with our 'arrangements letter'.	Medium		
2.	Management should provide us with a full list of staff leave during the final accounts audit fieldwork period to avoid delays that could compromise delivery within the agreed timeframe.	Low		
3.	Budget holders should be reminded of the need to ensure year end accruals are identified so that expenditure is accounted for in the correct year.	Medium		

Appendix B: Audit opinion

We anticipate we will provide the Group/Council with an unmodified audit report or amend as appropriate

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

We have audited the financial statements of Hyndburn Borough Council (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Group and Authority Movement in Reserves Statements, the Group and Authority Comprehensive Income and Expenditure Statements, the Group and Authority Balance Sheets, the Group and Authority Cash Flow Statements, the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

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

Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements: present a true and fair view of the financial position of the Authority and Group as at 31 March 2016 and of the Authority's and Group's expenditure and income for the year then ended; and have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report, and the Annual Governance Statement is consistent with the Group audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:
 in our opinion the Annual Governance Statement does not comply with the guidance included in ‘Delivering Good Governance in Local Government: a Framework’ published by CIPFA/SOLACE in June 2007; or
 we issue a report in the public interest under section 24 of the Act; or
 we make a written recommendation to the Authority under section 24 of the Act; or
 we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.

Conclusion on the Authority’s arrangements to secure value for money through economic, efficient and effective use of its resources

Respective responsibilities of the Authority and auditor

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

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

Scope of the review of the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code in satisfying ourselves whether the Authority put in place proper arrangements to secure value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

We planned our work in accordance with the Code. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, we are satisfied that in all significant respects *the Authority* has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

Certificate

We certify that we have completed the audit of the accounts of the Authority in accordance with the requirements of the Act and the Code.

Karen Murray Signature to be added

For and behalf of Grant Thornton UK LLP, Appointed Auditor

4 Hardman Square
 Manchester
 M3 3EB

Date to be added



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