

Annual Audit Letter

Year ending 31 March 2018

Hyndburn Borough Council

29 August 2018



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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Hyndburn Borough Council (the Council) and its associates (the Group) for the year ended 31 March 2018.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit Committee as those charged with governance in our Audit Findings Report on 30 July 2018.

Our work

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council and group's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council and group's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Materiality	We determined materiality for the audit of the Council's financial statements to be £939,000 (Group £939,320), which is 2% of the Council's (and Group's) gross revenue expenditure.
Financial Statements opinion	We gave an unqualified opinion on the Council and Group's financial statements on 31 July 2018.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.
Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 31 July 2018.
Certification of Grants	We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2018. We will report the results of this work to the Audit Committee in our Annual Certification Letter.
Certificate	We certify that we have completed the audit of the accounts of Hyndburn Borough Council in accordance with the requirements of the Code of Audit Practice.

Audit of the Accounts

Materiality

In our audit of the Council's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Council's accounts to be £939,000 (Group £939,320), which is 2% of the Council's (and Group's) gross revenue expenditure. We used this benchmark as, in our view, users of the Council's and group's financial statements are most interested in where the Council and group has spent its revenue in the year.

We also set a lower level of specific materiality for senior officer remuneration of £15,000 due to its sensitive nature.

We set a lower threshold of £47,000 (Group £47,016), above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed
- the significant accounting estimates made by management are reasonable
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the statement of accounts, the narrative report and the annual governance statement to check that they are consistent with our understanding of the Council, and with the financial statements included in the statement of accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach is based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Accounts

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Improper revenue recognition</p> <p>Under ISA 240 (UK) 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• the culture and ethical frameworks of local authorities, including at Hyndburn Borough Council, mean that all forms of fraud are seen as unacceptable <p>Therefore, we did not consider this to be a significant risk for Hyndburn Borough Council.</p>	<p>Whilst we rebutted this risk, our other work on the Council's income including council tax, non domestic rates, grants and other income did not identify any issues.</p>
<p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities.</p>	<p>We have:</p> <ul style="list-style-type: none">• gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness• obtained a full listing of journal entries, identified and tested any unusual risk journal entries for appropriateness• evaluated the rationale for any changes in accounting policies or significant unusual transactions• reviewed significant related party transactions.	<p>Our audit work has not identified any issues in respect of management override of controls.</p>

Audit of the Accounts

Significant Audit Risks *(continued)*

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of pension liability</p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements. We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p>	<p>We have:</p> <ul style="list-style-type: none"> identified the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement reviewed the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation gained 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 reviewed the consistency of the pension fund net liability disclosures in the notes to the financial statements with the actuarial report from your actuary. 	<p>Our audit work has not identified any issues in respect of the valuation of the pension fund liability.</p>
<p>Valuation of plant, property and equipment</p> <p>The Council carries out a rolling programme of valuations that ensures property, plant and equipment is revalued at least every five years. This aims to ensure that the carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements. We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p>We have:</p> <ul style="list-style-type: none"> reviewed management's processes and assumptions for the calculation of the estimate considered the competence, expertise and objectivity of the management experts used reviewed the instructions issued to valuation experts and the scope of their work reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding tested revaluations made during the year to ensure they were input correctly into the Council's asset register evaluated the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value. <p>Our testing of assets held for sale identified two instances where assets which had been sold or partly disposed of had not been correctly removed from assets held for sale due to the complex nature of the disposal. Management has corrected the financial statements to appropriately record both these transactions. One of these disposals resulted in net additional income of £190,000 to the Council and group's reported financial position for the year.</p>	<p>Other than the issue relating to disposals, our audit procedures did not identify any other significant issues in relation to the valuation of plant, property and equipment.</p>

Audit of the Accounts

Audit opinion

We gave an unqualified opinion on the Council and Group's financial statements on 31 July 2018

Preparation of the accounts

The Council presented us with draft accounts in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit to the Council's Audit Committee on 30 July 2018.

We identified one adjustment affecting the group and Council's reported financial position relating to income from the partial disposal of land not being recognised. The net impact was additional income of £190,000 which the Council has processed in its accounts.

A number of amendments were also made to the financial statements following our audit in respect of disclosure and classification changes. These had no impact on the group and Council's reported financial position for 2017/18.

Certificate of closure of the audit

We are also required to certify that we have completed the audit of the accounts of Hyndburn Borough Council in accordance with the requirements of the Code of Audit Practice. We issued our certificate on the closure of the audit on 31 July 2018.

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website in the Statement of Accounts in line with the national deadlines.

Our review of the Narrative Report identified a few areas where disclosures could be further developed, for example in respect of the Council's Corporate Strategy and Vision. Officers updated the Narrative Report to reflect the findings from our review.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the 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.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out overleaf.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2018.

Value for Money conclusion

Key Value for Money risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Financial position and sustainability</p> <p>The Council as other local authorities continues to operate under significant financial pressures. However, whilst the Council does not have a history of financial difficulty, the position is beginning to become more challenging.</p> <p>At the December review of budget performance, the Council was forecasting a favourable variance on the General Revenue Account (GRA) of £336,000 for 2017/18.</p> <p>In January, the Council identified a forecast budget gap of £1.687m for 2018/19. The Council has identified around £1.687m of savings for 2018/19 via the policy options process. The Council continues to face a challenging financial position going forward with a budget gap of around £0.560 in 2019/20 and £1.424m in 2020/21.</p>	<p>As part of our audit we:</p> <ul style="list-style-type: none"> • reviewed budget monitoring reports and updates to the Medium Term Financial Plan • reviewed plans to address future potential budget gaps • reviewed how the Council is identifying, managing and monitoring financial risks • reviewed revenue and capital reports. 	<p>We found:</p> <ul style="list-style-type: none"> • for 2017/18, the Council delivered an actual deficit on the provision of services of £1,118k (£1,332k in 2016/17) based on total net expenditure of £13,049k. An outturn underspend was achieved of £438,000 on the GRA for 2017/18 compared to the favourable variance projected in December 2017 of £336,000 • the Council delivered savings during the year of £1,486k, some £438k higher than the budgeted savings of £1,048k included in the 2017/18 budget. Total savings delivered by the Council over the last six years amount to over £7,700k • the Council's capital spend during 2017/18 amounted to £3,432k. The main areas of spending related to Accrington Town Centre (£1,375k), housing related schemes (£940k) and a further £458k being spent on parks and open spaces • the Council approved its 2018/19 budget in February 2018 with a 2.12% increase in Council Tax. Total expenditure was estimated at £12,861k with resources expected of £11,174k requiring savings during the year of £1,687k. Whilst challenging, the Council believes it will be able to deliver the necessary savings required during the year • in February 2018, the Council approved the updated Medium Term Financial Strategy covering the period, 2018/19 to 2020/21. Whilst not as challenging as in 2018/19, savings required are estimated at £560k in 2019/20 and £1,424k in 2020/21 • senior officers consider activity to date for 2018/19 is in accordance with budget and whilst risks remain, these will be managed with a balanced outturn position projected. <p>Conclusion</p> <ul style="list-style-type: none"> • The Council has a history of effective financial management and control and delivering a surplus outturn position. • Whilst a surplus has been delivered in 2017/18, next year, 2018/19 will continue to be challenging given the significant savings required to be delivered of £1,687k. There is a need for the Council to continue to closely monitor its budget and the savings being delivered.

Value for Money conclusion

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Capital Programme</p> <p>The Council has an ambitious capital programme to regenerate parts of the borough. The Council approved a capital programme for 2017/18 of £9.3m which was subsequently increased to £12.01m.</p> <p>The capital programme consists of housing improvements and various other schemes. We understand from discussions with officers that a major new development is also currently under discussion.</p> <p>We will consider the delivery of the Council's capital programme for 2017/18 against budget and any associated slippage. We will also continue to discuss with officers proposals for major future developments and how the Council is identifying and managing any associated risks.</p>	<p>As part of our audit we:</p> <ul style="list-style-type: none"> considered the delivery of the Council's capital programme for 2017/18 against budget and any associated slippage discussed with officers proposals for major future developments and how the Council is identifying and managing any associated risks reviewed revenue and capital reports. 	<p>We found:</p> <ul style="list-style-type: none"> that in 2017/18, the Council delivered a total capital programme of £3,432k, or some 37% of the original capital programme for the year discussions with officers indicates that slippage has mainly arisen during the year due to deferring some capital schemes. However, officers consider all approved schemes will be delivered and have not been cancelled, only deferred. Delays to the delivery of individual schemes can result in service benefits being postponed and potentially impact on availability and service quality issues the Council has a clear focus on redevelopment within the borough and wherever possible, encouraging business and developments which create jobs and boost the local economy. To this end, the Council has been working with an external company to support in the building of a hotel and conference centre with the potential for future development of shops and industrial units. This support has been on-going for some time and the development has now started to be built housing is a key focus for the Council and it has been in discussions with Homes England regarding a former power station site in the borough consisting of some 90 acres and the potential to build a significant number of new homes. A masterplan for this development is currently being prepared which is expected to be available by December 2018 the Council has a clear focus on assessing risks in all the developments it considers and takes appropriate legal advice both internally and externally when required. <p>Conclusion</p> <ul style="list-style-type: none"> The Council has been unable to fully deliver its planned capital programme for the year due in the main to deferring some capital schemes. Officers remain aware of this situation and are confident that all schemes will be delivered. However, delays to the delivery of individual schemes can result in service benefits being postponed and potentially impact on availability and service quality issues The Council has good partnership working arrangements in place which it utilises to support the regeneration of the borough. It has been successful in attracting a major development of a new hotel and conference centre and is working towards a significant scheme for new homes.

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and the provision of non-audit services.

Report issued	Date issued
Audit Plan	March 2018
Audit Findings Report	July 2018
Annual Audit Letter	August 2018

Fees issued	Planned £	Actual fees £	2016/17 fees £
Statutory Council audit	46,927	46,927	46,927
Additional fees for the audit of the group accounts ¹	3,000	3,000	2,900
Housing Benefit Grant Certification	4,224	4,224	6,165
Total fees	54,151	54,151	55,992

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

¹ In addition to the audit fee of £46,927, we agreed last year a fee variation to cover the additional work required as a result of the requirement for the Council to produce group accounts. We propose a similar fee variation for this year, 2017/18 of £3,000. This fee variation is subject to agreement by Public Sector Audit Appointments Ltd.

Non- audit services

No non-audit services were provided by Grant Thornton UK LLP to the Authority during the year ended 31 March 2018.

Working with the Council

During the year we have delivered a number of successful outcomes with you:

- an efficient audit – we worked with officers during the year to ensure the earlier accounts preparation and audit deadlines were achieved. We also completed the bulk of our audit fieldwork during June 2018 in accordance with the timetable agreed with Officers
- improved financial processes – we worked with you to improve your processes including strengthening arrangements for identifying and accounting for asset disposals
- sharing our insight – we provided regular Audit Committee updates covering best practice. We also shared our thought leadership reports
- providing training – we provided your teams with training on financial accounts and annual reporting.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.



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