

# The Annual Audit Letter for Hyndburn Borough Council

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**Year ended 31 March 2017**

October 2017

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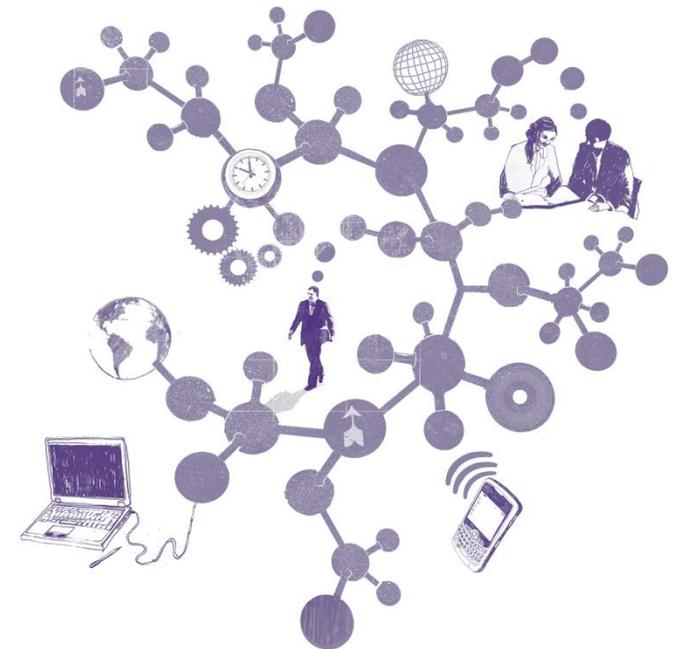
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# Executive summary

## **Purpose of this letter**

Our Annual Audit Letter (Letter) summarises the key findings arising from the work we have carried out at Hyndburn Borough Council (the Council) for the year ended 31 March 2017.

This Letter provides a commentary on the results of our work to the Council and its external stakeholders, and highlights issues 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 (the Code) 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 18 September 2017.

## **Our 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'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's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

## **Our work**

### **Financial statements opinion**

We gave an unqualified opinion on the Council's financial statements on 22 September 2017.

### **Value for money conclusion**

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2017. We reflected this in our audit opinion on 22 September 2017.

### **Certificate**

We certified that we had completed the audit of the accounts of Hyndburn Borough Council in accordance with the requirements of the Code on 22 September 2017.

### **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 2017. We will report the results of this work to the Audit Committee in our Annual Certification Letter.

### **Working with the Council/Authority**

Your finance staff attended our final accounts closedown workshops where we provide your teams with training on current financial accounts issues. We also provided you with regular Audit Committee updates covering developments and best practice.

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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# Audit of the accounts

## **Our audit approach**

### **Materiality**

In our audit of the Council's accounts, we applied the concept of materiality to determine the nature, timing and extent of our work, and to evaluate 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 our audit of the Council's accounts to be £971,000, which is 2% of gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We set a lower threshold of £48,000, above which we reported errors to the Audit Committee in our Audit Findings Report.

### **The scope of our audit**

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

- the Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by Chief Financial Officer are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

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

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

Our audit approach was 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 - Council

These are the 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><b>Management over-ride of controls</b></p> <p>Under ISA (UK&amp;I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> <li>• Reviewed journal entry process and completed a walkthrough of the controls operating</li> <li>• Reviewed accounting estimates, judgments and decisions made by management</li> <li>• Tested journal entries</li> <li>• Reviewed accounting estimates, judgments and decisions made by management</li> <li>• Reviewed for unusual significant transactions.</li> </ul>	<p>Our audit work did not identify any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal controls and testing of journal entries did not identify any significant issues.</p> <p>We did not identify any unusual significant transactions.</p>
<p><b>The expenditure cycle includes fraudulent transactions</b></p> <p>Practice Note 10 requires us to consider the risk of material misstatement due to fraudulent financial reporting that may arise from manipulation of expenditure recognition, especially where the body is required to meet targets. For your Council, we have concluded that the greatest risk of material misstatement relates to the completeness of operating expenses and creditor balances.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> <li>• Updated our understanding and documentation of the processes and controls in place to account for operating expenses and completed a walkthrough of key controls.</li> <li>• Completed substantive testing of a sample of operating expenses and year end payables and accruals to supporting evidence to ensure valid spend.</li> <li>• Searched for unrecorded liabilities by completing cut off testing on post year end payments.</li> </ul>	<p>Our sample testing of payments made after 31 March 2017 identified 1 payment accounted for in 2017/18 that should have been accounted for in 2016/17.</p> <p>No other issues were identified in respect of operating expenses.</p>

# Audit of the accounts - Council

These are the 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><b>Valuation of property, plant and equipment</b>            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>As part of our audit work we:</p> <ul style="list-style-type: none"> <li>• Reviewed management's processes and assumptions for the calculation of the estimate.</li> <li>• Reviewed the competence, expertise and objectivity of any management experts used.</li> <li>• Reviewed the instructions issued to valuation experts and the scope of their work</li> <li>• Reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding.</li> <li>• Evaluated 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.</li> <li>• Tested a judgemental sample of revaluations made during the year to ensure they are input correctly into the Council's asset register.</li> </ul>	<p>Our audit work did not identify any significant issues.</p>
<p><b>Valuation of pension fund net liability</b>            The Council's pension fund net liability, as reflected in its balance sheet ,represents a significant estimate in the financial statements.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> <li>• Identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We also assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement.</li> <li>• Reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation and gained an understanding of the basis on which the valuation is carried out.</li> <li>• Undertook procedures to confirm the reasonableness of the actuarial assumptions made.</li> <li>• Reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.</li> </ul>	<p>Our audit work did not identify any significant issues.</p>

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# Audit of the accounts

## **Audit opinion**

We gave an unqualified opinion on the Council's accounts on 22 September 2017, in advance of the 30 September 2017 national deadline.

The Council made the accounts available on 26 June 2017. We received working papers to support the draft financial statements in advance of starting our work on site. The working papers provided did not fully meet our requirements and additional working papers were therefore requested and obtained during the audit.

## **Issues arising from the audit of the accounts**

We reported the key issues from our audit of the accounts of the Council to the Council's Audit Committee on 18 September 2017.

We identified no adjustments affecting the group and Council's reported financial position. The draft financial statements for the year ended 31 March 2017 recorded a deficit on the provision of services of £1,332k; this remained unchanged following our audit.

Various amendments were made following our audit in respect of disclosure and classification changes required. This included a material error in the disclosure note on provisions. These had no impact on the group and Council's reported financial position for 2016/17.

## **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 with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council. We agreed some amendments and additions to both documents.

## **Other statutory duties**

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We did not identify any issues that required us to apply our statutory powers and duties under the Act. We did not receive any objections from electors to the 2016/17 accounts. There were no circumstances that required us to issue a public interest report in respect of our 2016/17 audit.

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# Value for Money conclusion

## **Background**

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2016 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 in table 2 overleaf.

## **Overall VfM 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 2017.

# Value for Money

**Table 2: Value for money risks**

Risk identified	Work carried out	Findings and conclusions
<p><b>Medium Term Financial Strategy</b></p> <p>The Council's medium term financial strategy 2017/18 to 2019/20 forecasts required savings and efficiencies of £4.1m over the three years of the plan. Savings proposals were set out in the revenue budget for 2017/18 that was approved by Council in February 2017. Progress in delivery will be monitored through existing budget monitoring and reporting arrangements.</p>	<p>We reviewed:</p> <ul style="list-style-type: none"> <li>the reasonableness of assumptions in the updated MTFS</li> <li>the Council's arrangements for identifying, agreeing and delivering its savings plans</li> <li>financial and budget reporting to Members</li> <li>the out-turn position for 2016/17 and the budget plan for 2017/18</li> </ul> <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 financial performance is reported to Cabinet. The reports provide sufficient commentary on performance against budget to date and forecasts to year end overall and for each service group. The reports also provide details of individual service risks and pressures together with the actions being taken to address them.</p> <p>Financial forecasts for 2016/17 consistently predicted a year end surplus throughout the year. This fluctuated from an initial surplus forecast of £454k reported in October 2016, rising to £534k reported in February 2017 and a final year end surplus of £759k. This reflects the prudent approach to financial forecasting during the year and the ongoing priority of identifying additional savings to deliver a surplus and assist with future financial pressures on the Council.</p> <p>The half-year capital position was reported to Cabinet in October 2016 and the year end outturn in June 2017. The October report forecast year end spend of £8m. However, actual spend at year end was £3.6m. This is a significant underspend against the authorised budget of £8.4m.</p> <p>For 2016/17, the council set a minimum level of general fund reserves of £2m. At 31 March 2017 the general fund reserves balance was £2.9m, £0.9m above this minimum. This provides the Council with a reasonable level of reserves to meet additional pressures on a non-recurrent basis. The Medium Term Financial Strategy (MTFS) for 2017/18 suggests the minimum level of reserves required remains at £2m.</p> <p>The 2017/18 budget and MTFS to 2019/20 was prepared by the Deputy Chief Executive in consultation with services. It was considered by Cabinet and then debated and approved by Council in February 2017. The 2017/18 revenue budget identified savings, efficiencies and additional income required of £1.1m and set out the measures planned by services to achieve this. We considered the assumptions underpinning the latest MTFS 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 MTFS for formal approval by Cabinet and Council, after which they are deducted from budgets.</p>

# Value for Money

**Table 2: Value for money risks**

Risk identified	Work carried out	Findings and conclusions
		<p>In the period to 31 July 2017 the Council has a year to date positive variance of £66k. against its revenue budget with a forecast year end positive variance of £134k.</p> <p>Our review of the savings included in the 2017/18 budget confirmed that sufficient measures are in place to identify and deliver savings targets. Specific measures have not been identified for £165k of the target for Policy &amp; Corporate Governance but are to be delivered primarily through vacancies and revenue slippage during the year. Actual delivery against savings targets is kept under review and any under delivery is managed within services to ensure financial targets are still achieved.</p> <p>The MTFS forecasts further savings required of £2m in 2018/19 and £0.9m in 2019/20.</p> <p>Although the Council faces challenging further savings targets over the period of the MTFS, it has a very good track record of delivering savings targets and managing financial pressures to ensure expenditure remains below budget.</p> <p><b>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements</b></p>

# Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

## Fees

	Proposed fee £	Actual fees £	2015/16 fees £
Statutory audit of Council	46,927	TBC*	50,302
Housing Benefit Grant Certification	6,165	6,165	4,224
<b>Total fees (excluding VAT)</b>	<b>53,092</b>	<b>TBC</b>	<b>54,526</b>

\* We have agreed a fee variation of £2,900 with the Deputy Chief Executive to cover the additional work required as a result of the requirement for the Council to produce group accounts. Fee variations are subject to agreement by Public Sector Audit Appointments Ltd.

## Grant certification

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of PSAA.

Our grant certification fee is still an estimate, as our work on the Council's housing subsidy claim is on-going and will not be finalised until the November 2017 deadline.

## Reports issued

Report	Date issued
Audit Plan	March 2017
Audit Findings Report	September 2017
Annual Audit Letter	October 2017



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