

The Audit Findings for Rossendale Borough Council

Year ended 31 March 2014

15 September 2014

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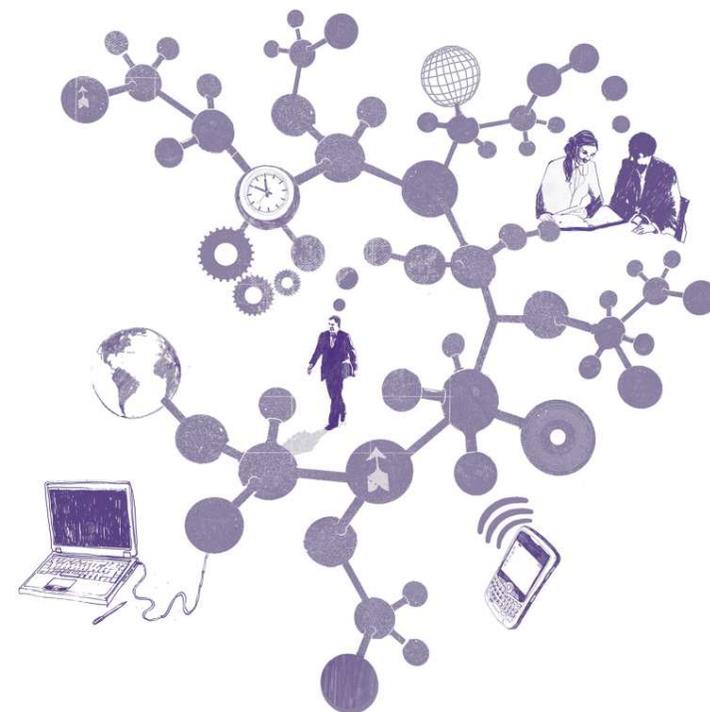
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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Section 1: Executive summary

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Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Rossendale Borough Council's ('the Council') financial statements for the year ended 31 March 2014. 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 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position, its expenditure and income 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 reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated 12 June 2014.

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

- completion of our testing of Housing Benefit expenditure and the Council Tax Support Scheme and
- review of the final version of the financial statements
- obtaining and reviewing the final management letter of representation
- review of the final version of the Annual Governance Statement
- updating our post balance sheet events review, to the date of signing the opinion and

- Whole of Government Accounts

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion on the financial statements.

We have identified a number of adjustments affecting the Council's reported financial position (details are recorded in section 2 of this report). The draft financial statements recorded net income of £3,793k; the audited financial statements show income of £4,860k, an increase of £1,067k. The main changes were for £737k grant income that had not been correctly accounted for and £274k provision which is now held in earmarked reserves. This change to the provisions has also resulted in a £274k increase in the Council's net assets on the balance sheet from £5,488k in the draft financial statements to £5,762k in the audited financial statements.

Group accounts have also been added in relation to the Council's interest in Rossendale Transport Ltd.

The above adjustments have also required corresponding amendments to the Movement in Reserves Statement, Cash Flow Statement and associated notes.

We also identified a number of other adjustments to improve the presentation of the financial statements.

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

- the draft accounts and working papers were generally of good quality, and finance staff responded promptly to all audit queries
- the audit has not identified any material unadjusted misstatements.

Further details are set out in section 2 of this report.

Value for Money conclusion

We are pleased to report that, based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VfM conclusion.

Further detail of our work on Value for Money is set out in section 3 of this report.

Whole of Government Accounts (WGA)

We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable.

Controls

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.

Our work has not identified any control weaknesses which we wish to highlight for your attention.

Further details are provided within section 2 of this report.

The way forward

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

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

Acknowledgment

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
September 2014

Section 2: Audit findings

01. Executive summary

02. Audit findings

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04. Fees, non audit services and independence

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Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Committee on 24 June 2014. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you on 24 June 2014.

Audit opinion

We anticipate that we will provide the Council with an unmodified opinion. Our audit opinion is set out in Appendix B.

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 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>Improper revenue recognition</p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<ul style="list-style-type: none"> • review and testing of revenue recognition policies • testing of material revenue streams • review of unusual significant transactions 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p>Management override of controls</p> <p>Under ISA 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> • review of accounting estimates, judgements and decisions made by management • testing of journal entries • review of unusual significant transactions 	<p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

Audit findings against 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	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls are designed effectively • tested operating expenses • review and testing of year end accruals and creditor balances 	Our audit work has not identified any significant issues in relation to the risk identified
Employee remuneration	Employee remuneration accrual understated	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls are designed effectively • Agreement to accounts and supporting notes. • Sample testing of employee remuneration in the year. 	Our audit work has not identified any significant issues in relation to the risk identified

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
Welfare expenditure	Welfare benefit expenditure improperly computed	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls are designed effectively • agreement to accounts and supporting notes. 	Our audit work to date has not identified any significant issues in relation to the risk identified. We are currently completing our testing of Housing Benefit Subsidy Claim testing using Audit Commission HBCOUNT approach.
Property, plant & equipment	PPE activity not valid	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> • confirmation of the operation of the system and controls • evaluation and walkthrough of controls. • sample testing of PPE movements during the year. • agreement to accounts and supporting notes. • sample test of PPE additions and disposals. 	Our audit work has not identified any significant issues in relation to the risk identified.
Property, plant & equipment	Revaluation measurement not correct	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> • Initial review of the arrangements made by management to commission an appropriate valuation of the Authority's asset base. • Agreed a sample of revaluation entries to information provided by the valuer • Reviewed revaluation disclosures in the accounts to confirm they are in line with CIPFA guidance 	Our audit work has not identified any significant issues in relation to the risk identified, but a number of adjustments have been made due to incorrect accounting treatment.

Group audit scope and risk assessment

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

Component	Significant?	Level of response required under ISA 600	Risks identified	Work completed	Assurance gained & issues raised
Rossendale Transport Limited	Yes	Targeted	None	We have undertaken the following work: <ul style="list-style-type: none">• Performed analytical procedures• agreed consolidation schedule to RTL's draft accounts• Obtained appropriate assurances from RTL's auditors.	Our audit work has not identified any significant issues.

Accounting policies, estimates & judgements

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

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	Revenue is the gross inflow of economic benefit, in cash and cash equivalents, in the reporting period. Revenue is measured at the fair value of the consideration received or receivable. In most cases the consideration receivable is in the form of cash or cash equivalents.	The Council's policy is consistent with the principles of International Accounting Standard (IAS)18 (Revenue) and the CIPFA Code of Practice. The policy has been adequately disclosed in the financial statements.	
Judgements and estimates	Key estimates and judgements include:: <ul style="list-style-type: none"> • useful life of property, plant and equipment; • revaluations and impairments • arrears; and • IAS19 Pension fund assets and Liabilities 	<p>The Council has demonstrated that it has established a robust process to produce the estimates included in its financial statements. Reliance on experts is taken where appropriate.</p> <p>The CIPFA Code requires that "the items within a class of property, plant and equipment are re-valued simultaneously to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates. However, a class of assets may be re-valued on a rolling basis provided revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date. Valuations shall be carried out at intervals of no more than five years."</p> <p>The Council re-values land and building assets on a five year rolling revaluation programme, as outlined in Note 17 of the financial statements. We have confirmed that there is no evidence that valuations recognised in the balance sheet are materially different to their carrying fair value. However, further work is required by the Council to ensure that items within a class are revalued simultaneously or that revaluations of classes of assets are completed within a short period. We recommend that the Council ensures and documents that its current arrangements for the revaluation of property, plant and equipment meet the requirements of the CIPFA Code.</p>	

Assessment

-  Marginal accounting policy which could potentially attract attention from regulators
-  Accounting policy appropriate and disclosures sufficient

-  Accounting policy appropriate but scope for improved disclosure

Accounting policies, estimates & judgements

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
Other accounting policies	<ul style="list-style-type: none"> We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards. 	<ul style="list-style-type: none"> Our review of accounting policies has not highlighted any issues which we wish to bring to your attention 	●

Assessment

- Marginal accounting policy which could potentially attract attention from regulators
- Accounting policy appropriate and disclosures sufficient

- Accounting policy appropriate but scope for improved disclosure

Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

All adjusted misstatements are set out below along with the impact on the primary statements and the reported financial position.

Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000
<p>1 Amendments made to correct:</p> <ul style="list-style-type: none"> ➤ £(94)k Revaluation Reserve related impairments incorrectly charged to the Comprehensive Income and Expenditure Statement (CIES) ➤ £2,272k net revaluation losses charged to Other Comprehensive Income and Expenditure rather than the Cost of Services. <p>The net impact of these adjustments on gross spend in the CIES is as follows:</p> <ul style="list-style-type: none"> • Cultural 760 • Environmental 512 • Highways, Roads & Transport Services 36 • Other Central Services 870 • (Surplus)/deficit on revaluations: PPE assets (2,178) 		
<p>2 Amendment to income in the CIES to correctly account for capital grant and contributions and capital receipts :</p> <ul style="list-style-type: none"> • Planning £(731k) to £(578k) 153 • Housing General Fund £(23,717k) to £(23,940k) (223) • Other income £(392k) to £(1,059k) (667) 		

Adjusted misstatements

Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000
<p>3 Amended split of IT support recharge credit applied to C&DC Gross Spend rather than NDC</p> <ul style="list-style-type: none"> • Corporate & Democratic Core gross spend increased from £280k to £887k • Non-Distributed Costs reduced from £573k to £(34k) <p>Amended classification of building operating costs:</p> <ul style="list-style-type: none"> • Other Central Services Gross Spend increased by £96k • (Surplus)/Deficit on Trading Undertakings Gross Spend reduced by £96k and associated notes 8 and 22 amended 	<p>607 (607) 96 (96)</p>	274
<p>4 Reclassification in the balance sheet of provisions to earmarked reserves:</p> <ul style="list-style-type: none"> • Short-term Provisions reduced from £(520)k to £(246)k (note 33 'Other Provisions' reduced from £484k to £210k), increasing earmarked reserves by £274k <p>The corresponding changes to the CIES gross spend are:</p> <ul style="list-style-type: none"> • Central Services to the Public • Cultural • Environmental • Housing General Fund • Other Central Services 	<p>(78) (8) (102) (59) (27)</p>	
<p>5 Amendment to CIES gross expenditure for incorrect treatment of prior year Council Tax related losses on the Collection Fund</p> <ul style="list-style-type: none"> • Council Tax re prior year losses decreased from £54k to Nil 	(54)	

Adjusted misstatements

	Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000
6	(Surplus)/deficit on Trading Undertakings income increased from £(343)k to £(344)k In-year (surplus)/deficit on Collection Fund – Council Tax) gross spend reduced from £(55)k to £(56)k	(1) (1)	
	Overall impact	£(1,067)	£274

Adjusted misstatements

The following is an adjusted misstatement to the draft financial statements comparative figures for 2012/13 in the Comprehensive Income and Expenditure Statement and which have been processed by management.

Detail	Comprehensive Income and Expenditure Account £'000
1. Amendments to 2012/13 CIES comparators for the prior period restatement of IAS19 costs with a corresponding amendments to Note 36.	
• Non-Distributed Cost gross spend increased from £(147)k to £(127)k	20
• Pension - interest costs reduced from £3,278k to £3,258k	(20)
• Pensions - admin expenses increased from nil to £17k	17
• Pensions - expected return on assets gross income reduced from (2,354) to (2,029)	325
• Pension Fund assets reduced from £3,512k to £3,170k	(342)
Overall impact on 2012/13 reported financial position.	£0

Misclassifications & 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 Misclassification	382	Balance Sheet	The balance on the Capital Receipts Reserve has been reduced by £382k to reflect the full amount of capital receipts applied to finance capital expenditure. There is a corresponding increase in the balance on the Capital Adjustment Account (CAA).
2 Disclosure	8,000	Cash Flow Statement	The format of the management of liquid resources section has been amended to separately disclose the purchase of investments and proceeds from their sale, as required by the Code. Comparative figures have also been amended for this material disclosure omission.
3 Disclosure	3	Note 11 Members allowances	Special Responsibility Allowances increased from £71k to £74k.
4 Disclosure	(5)	Note 14 External audit costs	Fees payable for the certification of grant claims and returns amended from £13k to £8k to disclose the correct fee.
5 Disclosure	N/A	Note 12 Officers' remuneration	Banding £80,000-£99,999 disclosing 1 officer, amended as follow to comply with the Code requirement for disclosures in bands of £5k: £75,000-£94,999 Nil officers £95,000-£99,999 1 officer

Misclassifications & 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
6 Misclassification and disclosure	(94)	Note 15 Adjustments between accounting basis and funding basis under regulation	<ul style="list-style-type: none"> • Impairment of PPE reduced from £129k to £35k for impairment amendment to CIES (see above) • Revaluation gains and losses on PPE increased from £(314k) to £2,272k to exclude revaluation gains charged to the Revaluation Reserve and so reflected in the CIES in Other Comprehensive Income and Expenditure rather than the CIES Cost of Services. • Deferred capital receipts amended from £1k to £(666k) • Revenue expenditure funded from Capital under statute (REFCUS) increased from £678k to £1,551k • The allocation of other income has been amended to properly reflect the application of capital receipts to fund capital expenditure • Capital grants and contributions unapplied credited to the CIES amended from £(606k) to £(271k) for grants amendment to CIES • Application of grants to capital financing transferred to the Capital Adjustment Account amended from nil to £(1,278k) for grant amendments to CIES • Difference between Council Tax and Business Rates income credited to the CIES and that calculated in accordance with statutory requirements amended from £151k to £40k to match adjustment to CIES.
	2,586		
	(667)		
	873		
	(382)		
	335		
	(1,278)		
	(111)		

Misclassifications & 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
7 Disclosure	873	Note 20a Capital Expenditure on Council Assets	REFCUS and Government Grants and other contributions have been amended to include Empty Homes Strategy related capital expenditure on assets not owned by the Council and related funding from the Homes and Community Agency
8 Disclosure	3,686	Note 24a Categories of Financial Instruments	<ul style="list-style-type: none"> Cash and cash equivalent balances, incorrectly included within investments, have been reclassified; The investment in Rossendale Transport Limited has been reclassified as an unquoted equity investment at cost. The accounting policy for financial assets is updated to reflect this change. Advance payments have been removed from debtor related financial assets £18k of advance receipts and £198K of payroll related statutory creditors have been removed from creditor related financial liabilities £1,010k of long term debtor balances and £693k of current debtor balances have been reclassified as loans and receivables Creditor balances have been reclassified as financial liabilities at amortised cost. Financial guarantees, which are correctly disclosed in note 37 have been removed.
	647		
	188		
	216		
	1,703		
	1,759		
	(1,200)		

Misclassifications & 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
9 Disclosure	180	Note 24b Financial Instrument Gains / Losses	Revenue related interest payables have been reclassified as relating to loans and receivables, rather than financial liabilities at amortised cost.
10 Disclosure	647	Note 24c Fair value of assets and liabilities carried at amortised cost	The long term investment in Rossendale Transport Limited has been removed since it is held at cost. Presentational changes have also been made to match the terminology used in the balance sheet.
11 Disclosure	3,686 N/A	Note 25 Nature and extent of risks arising from Financial Instruments	<ul style="list-style-type: none"> Cash and cash equivalent balances, incorrectly included within bank deposit related investments, have been reclassified in the credit risk table. The maximum principal sums borrowed for more than 364 days for 2013/14 and 2014/15, as shown in the limits in interest rate exposure table, have been amended to match the authorised limits for external debt approved by Council prior to the start of the financial year of £6,900k and £5,200k respectively.
12 Disclosure	198	Note 32 Creditors	Payroll related creditors have been reclassified within central government bodies.
13 Disclosure	667 (382)	Note 34b Usable Capital Receipts Reserve	<ul style="list-style-type: none"> Other income has been increased from £392k to £1,059k to include deferred capital receipts with a further entry added to transfer this income to the deferred capital receipts account. Capital receipts used to fund capital expenditure has been amended to reflect the full amount applied.

Misclassifications & 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
14	Disclosure	534 873	Note 34c Government Grants Unapplied	<ul style="list-style-type: none"> • Disabled Facilities Grants received and applied have been removed since they were applied in full during the year. • The element of Homes & Communities Agency (HCA) funding received, which was applied during the year has been removed, with a corresponding amendment to note 35b
15	Disclosure	1,255	Note 35b Capital Adjustment Account	<ul style="list-style-type: none"> • Capital Grants and Contributions have been increased from £606k to £1,861k to include the HCA funding applied of 873K and £382K of capital receipts used to fund capital expenditure to match entries in the Capital Expenditure on Council Assets note.
16	Disclosure	Various	Note 40 Segmental Reporting	Various amendments have been made as a result of the amendments made elsewhere in the financial statements.
17	Disclosure	Various	Explanatory Foreword	Various amendments to the table of General Fund figures as a result of the amendments made elsewhere in the financial statements.

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 matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

As part of our planned programme of work, our information system specialist team undertook a high level review of the general Information Technology (IT) control environment at the Council. This was undertaken as part of the review of the internal controls system. We are pleased to report that no significant issues arose from our work. We identified some areas where the Council's existing IT arrangements can be improved. Actions have been agreed and have been shared with the Head of Finance for information.

Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit.
2.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	Written representations	<ul style="list-style-type: none"> A letter of representation has been requested from the Council.
4.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements.
5.	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related party transactions which have not been disclosed.
6.	Going concern	<ul style="list-style-type: none"> Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.

Section 3: Value for Money

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Value for Money

Value for money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources;
- ensure proper stewardship and governance; and
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VFM conclusion based on two criteria specified by the Audit Commission which support our reporting responsibilities under the Code. These criteria are:

The Council has proper arrangements in place for securing financial resilience - the Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness - the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

We have considered the Council's arrangements to secure financial resilience against the following themes:

- Key financial performance indicators
- Financial governance
- Financial planning
- Financial control

Our review found that the Council has effective arrangements in place to deliver financial resilience in the short term. The Council set and delivered a balanced budget in 2013/14.

The Council has a detailed Medium Term Financial Plan 2013 – 18 in place that reflects the required financial position and is based on sound principles and assumptions. It is subject to regular review and reporting to Members. Effective financial control procedures are in place to underpin it.

However, the Council's Medium Term Financial Plan sets out that the Council will be in deficit by 2016/17 even after the planned use of reserves. The Council is committed to identifying significant levels of savings in each of the preceding years in order to ensure it is financially resilient and can continue to deliver statutory services. As a result, although a provisional balanced budget has been set for 2014/15, work is now underway to identify further savings of some £500k-£600k.

It is clear that significant challenges remain for the Council because the identification and securing of required savings is becoming increasingly difficult for such a small authority.

Challenging economy, efficiency and effectiveness

We have considered the Council's arrangements to challenge economy, efficiency and effectiveness against the following themes:

- Prioritising resources
- Improving efficiency & productivity

Overall our work highlighted that the Council has a good level of understanding of its costs across services. The Council is committed to finding ways to reduce costs including working with partners and others to share services. The Council maintains a strong focus on its strategic objectives.

Value for Money

Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.

We set out below our detailed findings against six risk areas which have been used to assess the Council's performance against the Audit Commission's criteria. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

Green	Adequate arrangements
Amber	Adequate arrangements, with areas for development
Red	Inadequate arrangements

The table below and overleaf summarises our overall rating for each of the themes reviewed:

Theme	Summary findings	RAG rating 2013-14
Key indicators of performance	<p>The Council's revenue budget for 2013/14 was £9,469k. The outturn for the year reports an underspend against this of £126k after contributions to reserves of £2,184k.</p> <p>The Council has a general fund balance of £1m and earmarked revenue reserves of £8.2m. These reserves provide cover for future liabilities.</p> <p>Taking account of slippage from 2012/13, the Council had a capital programme of £2.2m. It delivered £1.45m (66%) of the programme. The Council was successful in securing funding during the year for two significant new schemes, Stacksteads Cycleway and Veterans in the Community projects. The unspent resources will be carried forward into 2013/14.</p> <p>There is no evidence of problems with liquidity at the Council.</p> <p>The Council has relatively low levels of borrowing and one of the lowest levels of borrowing to tax revenues in its comparator group. It has a positive ratio for long term borrowing to long term assets (that is, it has borrowed less than the value of its assets).</p> <p>The Council continues to monitor collection rates for both council tax and business rates closely. The 2013/14 collection rate for council tax was 97.1% compared with 97.5% in the previous year. The collection rate for NNDR increased from 96.7% in 2012/13 to 97.2% in 2013/14.</p> <p>Sickness absence rates remain high although this is largely due to the impact of cases of long term absence given the small staff numbers at the Council. These cases are being managed through the absence management procedure and there is some evidence of improvement in Quarter 4 of the year.</p>	Green

Theme	Summary findings	RAG rating 2013-14
Strategic financial planning	<p>The Council has an updated Medium Term Financial Plan (MTFP) which takes the Council up to 2018/19. The Leadership Team and members are very focussed ensuring this is properly and regularly reviewed and updated.</p> <p>The current plan clearly identifies that significant levels of savings are needed over the life of the plan. It reflects key assumptions such as pay awards, likely reductions in Revenue Support Grant in line with LGA forecasts, potential increases in council tax and New Homes Bonus plus other realistic estimates for both income and expenditure over the period. Allowing for these pressures, the Council anticipates deficits of £815k in 2016/17 and £1.3m in 2017/18 after allowing for the planned use of reserves.</p> <p>Work is underway to develop a detailed financial plans for the period which support the delivery of statutory requirements over the period and address this spending gap. Although the Council has set a balanced budget for the 2014/15 financial year, it is seeking to identify additional savings of some £500k-£600k . This presents a significant challenge for a small authority like Rossendale. The Council has set aside £1.6m in a Change Management reserve and a further £1.2m in it's Transitional Reserve to support the delivery of transformational change in the way the Council delivers services.</p>	Amber
Financial governance	<p>The Council continues to have sound financial governance arrangements in place.</p> <p>Members and Officers have an appropriate focus on the financial management process.</p> <p>The Council has effective budget monitoring and reporting arrangements in place so that variances are identified and reported to Members alongside the planned corrective actions. Regular reports on the delivery of individual savings schemes are presented to Members.</p> <p>The Audit Committee provides adequate challenge on financial and governance issues.</p>	Green
Financial control	<p>The Council continues to have a robust approach to financial and performance management. This has helped to control spending and achieve the savings required to date.</p> <p>The Head of Internal Audit opinion for 2013/14 provides substantial assurance that the Council's control environment is generally adequate and effective. However, Internal Audit have identified scope for the Council to strengthen it's arrangements for risk management across the Council.</p>	Green

Theme	Summary findings	RAG rating 2013-14
Prioritising resources	<p>The Council has a good track record in challenging the way services are delivered. For example, it has recently reviewed the routes for the refuse collection service and has consulted on its plans. The new routes are now ready for implementation.</p> <p>The Council, in considering and prioritising resources, has undertaken a review of all fees and charges. It is open to developing shared service arrangements with other bodies. Some services are delivered jointly with other nearby Councils. The Council has also entered into a preferred developer relationship with the private sector and a register social landlord to help deliver the Council's corporate objectives.</p> <p>The Council has a clear understanding of the resources available to it and considers these in making decisions, such as to replace its vehicle fleet.</p> <p>There is evidence that the Council considers the impact of resources on performance through the corporate performance monitoring process and report.</p> <p>The Council has a strategy in place to identify surplus assets and to consider how these can best be used or disposed of to support the delivery of the Council's objectives.</p>	Green
Improving efficiency and productivity	<p>In pulling together detailed savings plans, the Council has looked at unit costs and benchmarking information. The fleet replacement decisions exemplify this well.</p> <p>The Council is not inward looking and is open to working with other organisations to achieve cost reductions and maintaining agreed service levels and quality. For example, the Council works with Rossendale Leisure Trust and CLAW to ensure the provision of good quality leisure services in the Borough.</p> <p>The Council is leading on the Empty Homes Initiative for East Lancashire. It has received grant from the Homes and Communities Agency of £1,144k to support activity to bring empty homes back into use both within the Borough and across the wider footprint. This is a good example of the Council taking action to deliver on its priorities as some 60 homes within the Borough have now been identified as empty homes that can be brought back into use and a total of £59k of grants paid out have now been repaid to the Council and recycled for use as grant support again.</p> <p>The Council has reduced its workforce by 22.5 FTEs (22%) during 2013/14. This is a significant reduction given the relatively small size of the Council.</p>	Green

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

Fees, non audit services and independence

We confirm below our final fees charged for the audit.

Fees

	Per Audit plan £	Actual fees £
Council audit	60,161	61,061
Grant certification	7,832	7,832
Total audit fees	67,993	£68,893

The 'actual' grant certification fee is estimated, based on the latest indicative fees published by the Audit Commission.

There is additional fee of £900 in respect of work on material business rates balances. This additional work was necessary as auditors are no longer required to carry out work to certify NDR3 claims. The additional fee is 50% of the average fee previously charged for NDR3 certifications for district councils and is subject to agreement by the Audit Commission.

Fees for other services

Service	Fees £
None	Nil

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.

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 of audit matters to those charged with governance

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

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 the Audit Commission (www.audit-commission.gov.uk).

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. 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 Audit Commission and includes nationally prescribed and locally determined work. 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.

	Audit Plan	Audit Findings
Our communication plan		
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		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Action plan

Priority

Significant deficiency – risk of significant misstatement

Deficiency - risk of inconsequential misstatement

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	The Council should ensure and document that its current arrangements for the revaluation of property, plant and equipment meet the requirements of the CIPFA Code.	M	Work is already underway to address this for the 2014/15. The Council's external valuer is now preparing valuations for the current year.	Head of Finance 31 March 2015

Appendix B: Audit opinion

We anticipate we will provide the Council with an unmodified audit report

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

Opinion on the financial statements

We have audited the financial statements of Rossendale Borough Council for the year ended 31 March 2014 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Group Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Group Comprehensive Income and Expenditure Statement, the Balance Sheet, the Group Balance Sheet, the Cash Flow Statement, the Group Cash Flow Statement, and 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 2013/14.

This report is made solely to the members of Rossendale Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. 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 Head of Finance and auditor

As explained more fully in the Statement of the Head of Finance's Responsibilities, the Head of Finance 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, and for being satisfied that they 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 Head of Finance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword 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:

- give a true and fair view of the financial position of Rossendale Borough Council as at 31 March 2014 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial position of the Group as at 31 March 2014 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and applicable law.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; we issue a report in the public interest under section 8 of the Audit Commission Act 1998; we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

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

Respective responsibilities of the Authority and the auditor

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 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place 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 arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2013, as to whether the Authority has proper arrangements for:

securing financial resilience; and
challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

We planned our work in accordance with the Code of Audit Practice. 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 had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2013, we are satisfied that, in all significant respects, Rossendale Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

Karen Murray
Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor
September 2014

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