

# The Audit Findings for Pendle Borough Council

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**Year ended 31 March 2014**

September 2014

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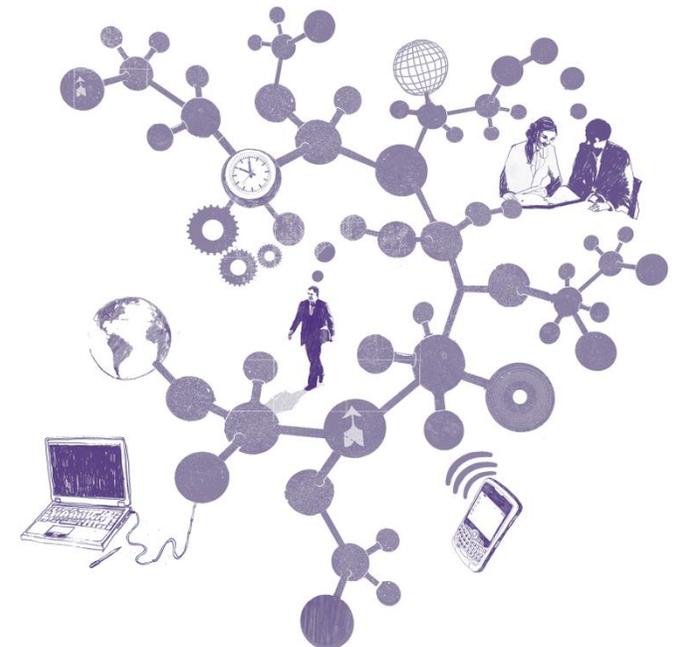
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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is 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 Pendle 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 March 2014.

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

- obtaining and reviewing the final management letter of representation; and
- updating our post balance sheet events review, to the date of signing the opinion.

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 no adjustments affecting the Council's reported financial position.

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

- the draft accounts and working papers were of a high quality
- finance staff responded promptly to all audit queries
- the audit has not identified any material misstatements
- we have agreed some minor amendments to classification and disclosure within the accounts. None of these are individually significant enough to bring to your attention.

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 have completed our work on the Whole of Government Accounts and have no issues which we wish to highlight for your attention.

### **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.

### **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 Central and Regeneration Services.

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 Central and Regeneration Services 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**

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## Section 2: Audit findings

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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 Accounts and Audit Committee on 31 March 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 31 March 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><b>Improper revenue recognition</b></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"> <li>• review and testing of revenue recognition policies</li> <li>• testing of material revenue streams</li> <li>• review of unusual significant transactions</li> </ul>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p><b>Management override of controls</b></p> <p>Under ISA 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> <li>• review of accounting estimates, judgements and decisions made by management</li> <li>• testing of journal entries</li> </ul>	<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 judgments.</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
<b>Operating expenses</b>	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"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• walkthrough testing of the key controls to assess the whether those controls are designed effectively</li> <li>• performed cut off testing to confirm the Council is recognising expenditure in the correct year.</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified
<b>Employee remuneration</b>	Employee remuneration accrual understated	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• walkthrough testing of the key controls to assess the whether those controls are designed effectively</li> <li>• prepared a trend analysis of the Council's payroll for the year to identify any unusual patterns</li> <li>• ensured the expenditure included in the Council's payroll system reconciles to the general ledger and to the statement of accounts</li> <li>• reviewed the disclosures and accruals made in the statement of accounts</li> </ul>	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
<b>Welfare expenditure</b>	Welfare benefit expenditure improperly computed	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• walkthrough testing of the key controls to assess the whether those controls are designed effectively</li> <li>• agreed welfare benefit expenditure to accounts and supporting notes</li> <li>• performed testing of housing benefit payments to individual claimants</li> <li>• confirmed the system parameters used on the benefits system are correct</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified
<b>Property, plant &amp; equipment</b>	Revaluation measurement not correct and PPE activity not valid	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• tested a sample of additions to confirm they are appropriately included in the statement of accounts.</li> <li>• confirmed the asset values reflected in the statement of accounts materially reflect the asset valuations undertaken.</li> </ul>	We set out our findings in respect of the valuation of property, plant and equipment on the page 13.

# 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
<p><b>Revenue recognition</b></p>	<p>The Council's accounting policy states that:</p> <ul style="list-style-type: none"> <li>Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council;</li> <li>Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council</li> </ul>	<ul style="list-style-type: none"> <li>The Council's policy is appropriate and consistent with the relevant accounting framework – the CIPFA Code of Practice on Local Authority Accounting (the CIPFA Code).</li> <li>The accounting policy is appropriately disclosed within the statement of accounts.</li> <li>The main elements of the Council's revenue is predictable meaning there is minimal judgement required from the Council in identifying when to recognise income.</li> </ul>	

**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
<p><b>Judgements and estimates</b></p>	<ul style="list-style-type: none"> <li>• Key estimates and judgements include:                             <ul style="list-style-type: none"> <li>– useful life of capital equipment</li> <li>– Valuation of property, plant and equipment</li> <li>– Pensions valuations</li> <li>– Provisions</li> </ul> </li> </ul>	<p>The Council's policies on estimates and judgements are reasonable and appropriately disclosed. The Council relies on appropriately qualified experts to make these estimates and judgements as appropriate.</p> <p>One issue to bring to your attention is the CIPFA Code requires that "items within a class of property, plant and equipment are revalued 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 revalued 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's programme of valuations is designed to revalue properties every five years, however not all assets in a class are revalued simultaneously. The Council's arrangements were reported to the accounts and audit committee in March 2014.</p> <p>From our review of the Council's arrangements we are satisfied the asset valuation process ensures a materially correct valuation is included in the accounts. However the policy in place does not fully comply with the Code.</p>	
<p><b>Other accounting policies</b></p>	<ul style="list-style-type: none"> <li>• We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.</li> </ul>	<p>Our review of accounting policies has not highlighted any issues which we wish to bring to your attention</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

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

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## 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; and
- Financial control

Overall our work highlighted the Council has good arrangements in place to monitor and update its budget. The level of financial challenge facing the Council is understood with the level of savings required clearly reported to members. There are still savings to identify and deliver in the medium term. The level of these is set out in the updated Medium Term Financial Strategy (MTFS). Members will need to make difficult decisions about the level and type of services to be provided for the people of Pendle if they are to continue to deliver savings required.

### Challenging economy, efficiency and effectiveness

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

- Prioritising resources; and
- Understanding costs

The MTFS is the key document when it come to setting the financial direction for the Council and it uses it to direct resources in line with corporate priorities. The Council is clear about the quantity of savings which need to be delivered over the medium term. The Council has sought to deliver services in partnership with other providers and has continued to monitor and challenge service performance throughout the year.

### 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 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:

<b>Green</b>	<b>Adequate arrangements</b>
<b>Amber</b>	<b>Adequate arrangements, with areas for development</b>
<b>Red</b>	<b>Inadequate arrangements</b>

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

<b>Theme</b>	<b>Summary findings</b>	<b>RAG rating 2012-13</b>	<b>RAG rating 2013-14</b>
<b>Key indicators of performance</b>	<p>The Council has delivered within budget for 2013/14. There was an underspend of £698k overall in 2013/14, which after slippage represented an underspend of £547k for the Council. The Council's usable reserves were £14.5m at the end of 2013/14. The Council's capital programme for 2013/14 outturn position was expenditure of £5.7m. This represented slippage in the capital programme of £9m.</p> <p>The Council has set a balanced budget for 2014/15 and is currently forecasting an underspend at year end.</p> <p>Looking ahead, the Council is aware of the need to make savings over the medium term. The level of savings required is set out clearly in the reports provided to members. Over the medium term work is ongoing to identify these with outline savings for 2015/16 and 2016/17 largely identified. These will be updated and reported to members as part of the updating of the medium term financial plan, and the regular review of income undertaken by the council. However, it is clear that Members will need to make difficult decisions about services if they are to deliver the efficiencies required over the medium term.</p> <p>There are no noted cash flow difficulties at the Council. At March 2014 the payment of undisputed invoices within 30 days was 98.93%, just under the target of 99.5%</p> <p>The Council's collection rates for Council Tax and Business Rates are monitored and published on the Council's website. In 2013/14 the collection rate for Council Tax for the full year was 95.9%, against a target of 95%, with 97.96% of business rates collected, against a target of 97%.</p> <p>The minimum level of reserves has been set at £1.25m. This is considered by members alongside the update MTFs as part of budget setting.</p> <p>The Council's sickness absence level improved in 2013/14 reducing from 9.92 days per FTE in 2012/13 to 6.66 days in 2013/14.</p>	<b>Green</b>	<b>Green</b>

Theme	Summary findings	RAG rating 2012-13	RAG rating 2013-14
<b>Strategic financial planning</b>	<p>The Council has sound arrangements in place for strategic financial planning.</p> <p>The MTFS is the key document. It considers the key financial issues facing the Council over the medium term and therefore covers the period to 2017/18. It is subject to regular review and revision over its lifetime.</p> <p>Members review the MTFS as part of budget setting and then in the regular financial reporting they receive throughout the year. Where there are changes in the assumptions underpinning the MTFS these are also reported to members. There is a clear trail provided to members of the changes in assumptions made throughout the year.</p> <p>The current MTFS sets out the proposed budgets for each year to 2017/18, including the savings required. This includes savings found and those still to be identified.</p> <p>The budget for 2014/15 was initially reported to members of the Executive in December 2013, ahead of the budget setting council in February 2014. When the budget was set in February 2014, it identified that savings of £1.2m would be needed in 2015/16, with a further £1.7m savings (£2.9m recurring) in 2016/17. Savings of £1.3m (£4.3m recurring) will be required in 2017/18.</p> <p>Members requested that management team develop a 3 year strategy for savings options for consideration by the Executive early in the new financial year. The MTFS remains up to date and was last reported to the Executive in July 2014. Detailed work has been on-going to identify the savings and much of what is required for 2015/16 and the following year has now been identified ahead of the formal budget setting process for 2015/16.</p> <p>However, the level of savings required means members will need to take difficult decisions in order to deliver the required financial position over the medium term. Members understand the financial position and the need for savings to be delivered, but must ensure that the budgets set for 2015/16 and beyond are sustainable.</p>	<b>Green</b>	<b>Green</b>
<b>Financial governance</b>	<p>The Council has sound arrangements in place for ensuring appropriate financial governance.</p> <p>The Head of Central and Regeneration Services is a member of the Council's management team and he reports regularly to the team and to Members on financial matters. Members are engaged in and understand the financial risks and the need for appropriate and effective governance.</p> <p>The financial implications of risks are considered by the Council as part of its risk management processes. The Council also takes account of the financial impact of decisions that it takes in updating financial plans and the MTFS.</p> <p>As in previous years, the Council is dependent on central government funding. Where there have been changes to the local government financial regime the Council has sought to ensure that members understand the implications of this.</p>	<b>Green</b>	<b>Green</b>

Theme	Summary findings	RAG rating 2012-13	RAG rating 2013-14
	<p>The Council has arrangements in place to consult upon its financial plans. The MTFS is available via the Council's website and, as in previous years, the Council has sought the views of staff and the public in setting the budget.</p> <p>The Council has an effective internal audit service in place. The Internal Audit Manager reports regularly to the Audit Committee on the outcomes of his work. There is a good working relationship between internal and external audit.</p> <p>Audit Committee provides effective challenge to both audit and management on the effectiveness of the Council's governance and risk management arrangements.</p>		
<b>Financial control</b>	<p>Overall, the Council has robust arrangements in place to ensure financial control.</p> <p>The Council undertakes regular budget monitoring and reporting. This includes forecasting the outturn position for the year. The strategic monitoring report to the Executive in November 2013 predicted an underspend of £614k (which would then be contributed to reserves to meet future findings pressures). The final outturn position was an underspend of £547k.</p> <p>The Council has a good track record of delivering within budget with only minor variances identified. Delivery of savings plans is monitored so that slippage is identified at an early stage and corrective action identified. The Council has a good understanding of its costs across the key services which need to be delivered.</p> <p>The General Fund reserve is £1.25m. This is the minimum balance recommended by the Council's Head of Central and Regeneration services. It provides some contingency against future cost pressures.</p> <p>The Council also holds significant earmarked reserves (£12m at the 31 March 2014). Earmarked reserves have reduced over the last two years as the financial pressures have increased. There is a general recognition that reserves are likely to reduce further over the next few years as the Council faces continued reductions in grant income. However, this will be a "planned use" as reserves will be applied to support services or the costs incurred in transformation of service provision.</p>	<b>Green</b>	<b>Green</b>

Theme	Summary findings	RAG rating 2013-14
<b>Prioritising resources</b>	<p>The Council has identified its corporate priorities. It then uses the MTFS as the key document to ensure that resources are aligned with priorities and in setting the overall direction for the Council.</p> <p>The Council is clear about the quantity of savings that need to be delivered over the medium term and has been clear about where spending reductions need to be delivered.</p> <p>The Council is seeking out those areas where it can encourage economic and housing growth in the area as a means to increase its income. A key strand to this agenda is the use of the private sector, including a Joint Venture company, to support the Council's economic development ambitions. In recent years, the Council has been very successful in securing additional resources from a broad range of different funding streams although this is becoming increasingly difficult now.</p> <p>The Council is in the process of identifying further long term savings. It has set up a working group to report to the Executive on a proposal for restructuring the management of the Council. This will be reported to members for a decision in due course.</p> <p>The Council has a reasonable understanding of its costs. It has undertaken some benchmarking and has sought to target high cost areas for reductions in order to have the greatest impact.</p> <p>Overall the Council is still meeting its targets and delivering a service in line with previous years. Performance monitoring undertaken throughout the year shows that service performance is broadly in line with its key aims and targets.</p>	<b>Green</b>
<b>Improving efficiency &amp; productivity</b>	<p>Although the Council has a good understanding of its high costs areas, it does not undertake significant reporting of unit costs. The Council has used some limited benchmarking information, for example reporting to the Accounts and Audit Committee the results of the internal audit benchmarking undertaken in Lancashire.</p> <p>Significant levels of savings have been delivered in each of the years from 2011/12 and the Council has remained within budget. Although longer term efficiencies and savings still need to be identified, officers have a good understanding of where and how to take this forward. Members have been involved in identifying savings and in ensuring they are deliverable.</p> <p>The Council has well developed performance reporting and key indicators are regularly reported to Members. In addition, there is regular monitoring at a department level to ensure that spend and service performance are on track.</p> <p>The Council has a good track record of identifying those areas where it can deliver in partnership. There is a long standing partnership with Liberata for delivery of key services to the area. The Council has also sought to work with other local authorities where possible to ensure services are sustainable and resilient. There are effective performance management arrangements in place to ensure that services delivered through these routes are meeting agreed service standards. This includes reporting to members.</p>	<b>Green</b>

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## Section 4: Fees, non audit services and independence

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# Fees, non audit services and independence

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

## Fees

	2012/13 £	Per Audit plan £	Actual fees £
Council audit	53,273	53,273	54,173
Grant certification	17,455	12,100	12,100
<b>Total audit fees</b>	<b>70,728</b>	<b>65,373</b>	<b>66,273</b>

The fee for the audit has increased by £900. This is a standard fee variation for all district councils agreed with the Audit Commission, reflecting the additional work required on the business rates figures in the accounts now the NNDR3 return is no longer subject to certification.

The work on grant certification is ongoing and will be complete by the 30 November deadline for the Housing Benefits claim. We will report any fee variation to the Audit Committee after this.

## 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.

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## Section 5: Communication of audit matters

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# 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](http://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.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
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 continue to consider it's valuation approach in line with the CIPFA code requirements	Deficiency		

# Appendix B: Audit opinion

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

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PENDLE BOROUGH COUNCIL**

### **Opinion on the Authority financial statements**

We have audited the financial statements of Pendle 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 Comprehensive Income and Expenditure Statement, the Balance Sheet, the 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 Pendle 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 Central and Regeneration Services and auditor**

As explained more fully in the Statement of the Head of Central and Regeneration Services Responsibilities, the Head of Central and Regeneration Services 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's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Central and Regeneration Services; 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 Pendle Borough Council 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, Pendle 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.

***Certificate***

We certify that we have completed the audit of the financial statements of Pendle Borough Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Karen Murray  
Director

for and on behalf of Grant Thornton UK LLP, Appointed Auditor  
4 Hardman Square  
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