

# The Audit Findings for Pendle Borough Council

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**Year ended 31 March 2015**

September 2015

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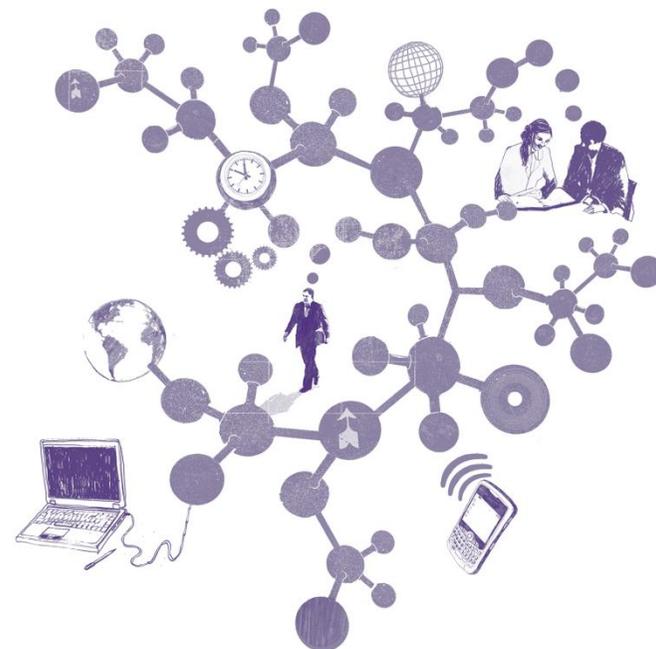
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September 2015

Dear Members of the Accounts and Audit Committee

### **Audit Findings for Pendle Borough Council for the year ending 31 March 2015**

This Audit Findings report highlights the significant findings arising from the audit for the benefit of those charged with governance (in the case of Pendle Borough Council, the Accounts and Audit Committee) , as required by International Standard on Auditing (UK & Ireland) 260. Its contents have been discussed with management.

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

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

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

Yours faithfully

Karen Murray

#### **Chartered Accountants**

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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 2015. 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 UK&I).

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 and 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 June 2015.

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

- completion of our final testing
- review of the final version of the financial statements

- 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 in respect of the financial statements.

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

- the accounts presented for audit were well prepared and included all the required disclosures.
- we received efficient and appropriate responses to our queries and this helped us complete our audit efficiently
- we did not identify any adjustments to the accounts affecting the Council's reported financial position. The draft financial statements for the year ended 31 March 2015 recorded total comprehensive income and expenditure of £18.9m and a general fund balance of £1.25m. This remains unchanged

Further details are set out in section two 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 three of this report.

### **Controls**

#### **Roles and responsibilities**

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

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

#### **Findings**

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

Further details are provided within section two 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 Financial Services Manager.

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 Financial Services Manager 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 2015**

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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 the 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 22 July 2015. 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 22 July 2015.

## **Audit opinion**

Our proposed 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 (UK&I) 315).

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

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p><b>Improper revenue recognition</b></p> <p>Under ISA (UK&amp;I) 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<p>In our audit plan we reported that having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including Pendle Borough Council, mean that all forms of fraud are seen as unacceptable.</li> <li>• Our audit approach requires that we test material revenue streams.</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 (UK&amp;I) 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> <li>• review of unusual significant transactions</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	<p>We have undertaken the following work in respect of this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of the processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough testing of the key controls to assess whether those controls were in line with our documented understanding</li> <li>• tested operating expenses including reviewing the reconciliation of the accounts payable system</li> <li>• testing of new year payments to confirm they have been accounted for in the correct period.</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	<p>We have undertaken the following work in respect of this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• reviewed the reconciliation of payroll costs to the general ledger</li> <li>• completed a trend analysis to assess whether employee remuneration is in line with expectations</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.

# 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 income recognition policy reflects that activity is accounted for in the year it takes place, not simply when cash payments are made. In respect of revenue the Council's accounting policies state 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>	<p>The Council's accounting policy is in line with the requirements of CIPFA code and is adequately disclosed in the accounts.</p>	
<p><b>Estimates and judgements</b></p>	<p>The key estimates and judgements include:</p> <ul style="list-style-type: none"> <li>PPE valuations and impairments</li> <li>Pension fund valuations and settlements</li> <li>The assessment made by the Council that group accounts are not required.</li> </ul>	<p>We have:</p> <ul style="list-style-type: none"> <li>reviewed the estimates and judgements made in the accounts</li> <li>sample tested valuations undertaken in the year to confirm they are appropriately included in the statement of accounts.</li> <li>confirmed the entries relating to the pension scheme in the accounts agree through to the actuarial valuation. We have considered the qualifications of and the work completed by the actuary to ensure we can place reliance upon their work.</li> <li>reviewed the assessment by management that group accounts are not required on the grounds of materiality. The assessment is reasonable. Sufficient disclosures have been made to explain the arrangements that the Council has entered into.</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 continued

Accounting area	Summary of policy	Comments	Assessment
<b>Going concern</b>	The Directors have a reasonable expectation that the services provided by the Council will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Directors' assessment which was presented to the accounts and audit committee in July 2015 and are satisfied with managements' assessment that the going concern basis is appropriate for the 2014/15 financial statements.	
<b>Other accounting policies</b>	We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.	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 but scope for improved disclosure

 Accounting policy appropriate and disclosures sufficient

# Accounting policies, Estimates & Judgements– review of issues raised in prior year

	Issue and risk previously communicated	Update on actions taken to address the issue
1.	<p><b>Estimates and judgements - Property, Plant &amp; Equipment</b></p> <p>As in previous years, the Authority carried out a rolling programme of revaluations. This approach is similar to many other authorities. You satisfied yourselves that the carrying amount of Property, Plant and Equipment (based on these valuations) did not differ materially from the fair value at 31 March 2015.</p> <p>However, in our view this rolling programme does not meet the Code's requirement to value items within a class of property , plant and equipment simultaneously, as this Code requirement, which is based on IAS 16 Property, Plant and Equipment, only permits a class of assets to be revalued on a rolling basis provided that:</p> <ul style="list-style-type: none"> <li>• the revaluation of the class of assets is completed within a 'short period'</li> <li>• the revaluations are kept up to date.</li> </ul> <p>In our view, we would normally expect this 'short period' to be within a single financial year. This is because the purpose of simultaneous valuations is to 'avoid reporting a mixture of costs and values as at different dates'. This purpose is not met where a revaluation programme for a class of assets straddles more than one financial year.</p>	<p>The Authority has continued with its policy of revaluing land and buildings assets on a rolling basis over a five year period.</p> <p>We have reviewed the revaluations completed for 2014/15 and have reviewed management's consideration of the reasonableness of the valuations for those assets in a class that have not been re-valued this year.</p> <p>We are satisfied that there is no indication that the carrying value of these assets is materially different from their fair value.</p>

**Assessment**

- ✓ Action completed
- X Not yet addressed

# 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 additional 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 non-trivial 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>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We obtained direct confirmations from PWLB for loans and requested from management permission to send confirmation requests for bank and investment balances . This permission was granted and the requests were sent. One request was not received so we undertook alternative procedures, including agreeing the balance back directly to your banking records.</li> </ul>

## 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. We considered and walked through the internal controls for Employee Remuneration and Operating Expenses as set out on page 10 above.

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

## 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	£393k	Short Term Debtors	Misclassification between headings within Note 14 Short Term Debtors. £393k was incorrectly included within the 'Other Entities & Individuals' sub-heading rather than ' Business Rate Payers / Council Tax Payers'. This was identified by the client at the start of the audit. This is an amendment to the classification of note 14 only.
2 Disclosure	N/A	N/A	The Code allows for 2 different methods of identifying the fair value of the Council's borrowing, as shown in Note 13. The difference between the two allowable methods results in a material difference, and as such an additional disclosure has been made setting this out.
3 Disclosure	N/A	N/A	Some minor presentational and typographical changes have been made.

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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 undertaken a review which considered the Council's arrangements against the three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control.

Overall our work highlighted the Council continues to deliver within budget and has set a balanced budget for 2015/16. Within the medium term there remain significant savings for the Council to identify and deliver. In recognition of this the Council has established a budget working group to move towards delivery of the savings plans.

### 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 the Council has a good understanding of its priorities particularly with its focus on regeneration and improving the economic outlook for the people of Pendle.

## 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 2015.

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

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

Theme	Summary findings	RAG rating
<b>Key indicators of performance</b>	<p>The Council has delivered within budget for 2014/15. There was an underspend of £212k after slippage in 2014/15.</p> <p>The Council's usable reserves were £14m at the end of 2014/15, which included the General Fund reserve of £1.25m (in line with the minimum level as approved by members in February 2015) and earmarked reserves of £11.2m. The capital programme for 2014/15 outturn position was expenditure of £5.784m against budgeted expenditure of £11.6m. This represented slippage in the capital programme of £5.761m, mainly in respect of housing schemes, and an underspend of £55k.</p> <p>The Council has set a balanced budget for 2015/16, and updated the medium term financial strategy as part of this process.</p> <p>The Council is aware of the need to make savings over the medium term. Work is on going to consider these options now that the level of savings required for 2016/17 and 2017/18 is identified. These are updated and reported to members as part of the regular updating of the medium term financial plan. It is clear that Members will need to make difficult decisions about the level of services provided if they are to deliver the budget required over the life of the plan. The establishment of the budget working group has been designed to identify ways in which the Council can reduce its net expenditure</p> <p>At March 2015 the payment of undisputed invoices within 30 days was 99.5%, which is on target, indicating no cash flow difficulties at the Council.</p> <p>In 2014/15 the collection rate for Council Tax for the full year was 94.98%, against a target of 95%, with 98.5% 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>	<b>Green</b>

Theme	Summary findings	RAG rating
<b>Strategic financial planning</b>	<p>The Medium Term Financial Strategy (MTFS) continues to be used by the Council to review the key financial challenges over the medium term and covers the period to 2018/19. It has been subject to regular review and is a live document for management and members in understanding the financial position.</p> <p>Members review the MTFS as part of budget setting and it is then reported again to members following the end of the financial year. The latest report was presented in June 2015.</p> <p>The current MTFS sets out the proposed budgets for each year to 2018/19, including the savings required each year and cumulatively over the period.</p> <p>Detailed work has been on-going to identify the savings schemes that will be needed if the Council is to deliver its MTFP. Savings of £1.045m have been identified for 2015/16. The plan requires further savings of £1.5m needed in 2016/17, with a further £1.3m savings (£2.8m recurring) in 2017/18. Savings of £1.4m (£4.2m recurring) are expected to be required in 2018/19.</p> <p>Members understand the financial position and the need for savings to be delivered. As part of this, the Council has established a budget working group. This group will develop charging and savings proposals to reduce the Council's net expenditure by £1.5m as part of the next budget setting process. The group will then identify the development of further charging and savings options to 2018/19 reflecting the savings required in the updated MTFS. There is a recognition that this will require the Council to make difficult decisions about the level and range of services it will continue to provide.</p>	<b>Green</b>
<b>Financial governance</b>	<p>The Council has sound arrangements in place for ensuring appropriate financial governance. There are good arrangements in place to monitor and review budgets throughout the year.</p> <p>The financial implications of risks are considered by the Council as part of its risk management processes. The risk management group considers the key risks to the Council.</p> <p>The Council has sound financial systems in place. This is supported by an effective internal audit service. Progress against the risk based Internal Audit plan reported is throughout the year to the Accounts and Audit Committee. This includes reporting on the actions taken in respect of recommendations made.</p> <p>The senior management of the Council has been restructured with the new structures in place from the 1 April 2015. Following the elections in May the Council has established a working group to review the Council's current form. It will consider whether the "leader and cabinet" executive model should change to a committee system from May 2016.</p>	<b>Green</b>

Theme	Summary findings	RAG rating
<b>Financial control</b>	<p>The Council has continued to demonstrate robust arrangements to ensure financial control.</p> <p>The Council has a good track record of delivering within budget. There is regular budget monitoring and reporting in place to support this. This includes forecasting the outturn position for the year. The strategic monitoring report to the Executive in December 2014 predicted an underspend of £271k (which would then be contributed to reserves to meet future findings pressures). The final outturn position was an underspend of £212k.</p> <p>The Council is currently forecasting an underspend of £113k for the 2015/16 financial year</p> <p>The General Fund reserve is £1.25m. This is the minimum balance as recommended as part of the budget setting process to provide contingency against future cost pressures.</p> <p>The Council also holds significant earmarked reserves (£11.2m at the 31 March 2015). Earmarked reserves have reduced over the last three years as the financial pressures have increased on the Council. 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, budget working group has been established to identify charging and savings proposals that will reduce net expenditure on a recurrent basis because reliance on reserves is not sustainable longer term.</p>	<b>Green</b>
<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. It 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 historically 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. Performance monitoring undertaken throughout the year shows that service performance is broadly in line with its key aims and targets.</p>	<b>Green</b>

Theme	Summary findings	RAG rating
<b>Improving efficiency &amp; productivity</b>	<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 within the financial plan, 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>Although the Council has a good understanding of its high cost areas, it does not undertake significant reporting of unit costs.</p> <p>The Council has well developed performance reporting and key indicators are regularly reported to Members.</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.</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

	Per Audit plan £	Actual fees £
Council audit	54,173	54,173
Grant certification on behalf of Audit Commission	13,840	13,840
<b>Total audit fees</b>	<b>68,013</b>	<b>68,013</b>

## 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 Financial Reporting Council'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 (UK&) 260, as well as other (UK&I) 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.

	Audit Plan	Audit Findings
<b>Our communication plan</b>		
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: 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**

We have audited the financial statements of Pendle Borough Council for the year ended 31 March 2015 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, the Collection Fund, the related notes and appendix 1. 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 2014/15.

This report is made solely to the members of Pendle Borough Council, as a body, in accordance with Part II of the Audit Commission Act 1998 and as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Financial Services Manager and auditor**

As explained more fully in the Statement of the Financial Service's Manager Responsibilities, the Financial Service Manager 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 2014/15, 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 also 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 financial services manager; 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 2015 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 2014/15 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 are required to 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; or we issue a report in the public interest under section 8 of the Audit Commission Act 1998; or we designate under section 11 of the Audit Commission Act 1998 a 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 in October 2014.

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 review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2014, 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 2015.

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 2014, 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 2015.

***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  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

4 Hardman Square  
Spinningfields  
Manchester  
M3 3EB

29 September 2015



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