

# Audit Findings

*Year ending 31 March 2018*

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Pendle Borough Council  
30 July 2018



# Contents



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Section	Page
1. Headlines	3
2. Financial statements	4
3. Value for money	14
4. Independence and ethics	17

## Appendices

- A. Action plan
- B. Follow up of prior year recommendations
- C. Audit adjustments
- D. Fees
- E. Audit Opinion

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 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 control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. 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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# Headlines

This table summarises the key issues arising from the statutory audit of Pendle Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2018 for those charged with governance.

<b>Financial Statements</b>	<p>Under the International Standards of Auditing (UK) (ISAs), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none"><li>the Council's financial statements give a true and fair view of the Council's financial position and Council's expenditure and income for the year, and</li><li>have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.</li></ul> <p>We are also required to report whether other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Our audit work was completed on site during July. Our findings are summarised on pages 4 to 13. There are no adjustments to the financial statements that have impacted the Statement of Comprehensive Income and Expenditure. Audit adjustments are detailed in Appendix C. We have also raised two recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.</p> <p>We anticipate issuing an unqualified audit opinion following the Accounts and Audit Committee meeting on 26 July 2018.</p> <p>We have concluded that the other information published with the financial statements, which includes the Statement of Accounts, Annual Governance Statement and Narrative Report, are consistent with our knowledge of your organisation and with the financial statements we have audited.</p>
<b>Value for Money arrangements</b>	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none"><li>the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion')</li></ul>	<p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that Pendle Borough Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources</p> <p>We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 14 to 16.</p>
<b>Statutory duties</b>	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"><li>report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and</li><li>certify the closure of the audit</li></ul>	<p>We have not exercised any of our additional statutory powers or duties.</p> <p>We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.</p>

## Acknowledgements

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.

# Summary

### Overview of the scope of our audit

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), 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.

### Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment ; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

### Conclusion

We anticipate issuing an unqualified audit opinion as detailed in Appendix E.

### Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality determination summarised below remains the same as per our audit plan reported to the Accounts and Audit Committee on 20 March 2018.

	Amount (£)	Qualitative factors considered
Materiality for the financial statements	1,063,000	Considered to be the level above which users of the accounts would wish to be aware in the context of overall expenditure.
Performance materiality	797,250	Assessed to be 75% of financial statement materiality.
Trivial matters	53,000	Assessed to be 5% of financial statement materiality.
Materiality for specific transactions, balances or disclosures		These items merit a lower materiality than financial statement level materiality due to being of particular interest to the public.
Senior officer remuneration	8,000	
Related party transactions	59,000	

# Going concern

**Our responsibility**

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

**Going concern commentary**

**Management's assessment process**

- Current financial performance and position
- 2018/19 approved budget and savings
- Medium Term Financial Plan (MTFP) 2019/2022

**Auditor commentary**

A paper called “assessment of going concern status” was presented to the March Accounts and Audit Committee by the s151 officer. It covered the financial performance and position of the council for 2017/18 up to Committee date and 2018/19 approved budget and Medium Term Financial Planning . The paper was approved at the 20 March 2018 Audit and Accounts Committee.

- It concluded that the Council is a going concern for the foreseeable future
- It discussed the savings plans and overall financial health including the balance sheet
- We have also carried out further work as part of our Value for Money Conclusion in relation to sustainable resource deployment

**Work performed**

We performed detailed work on the MTFP and met the S151 officer in relation to approved budgets (2018/19) and savings plans.

**Auditor commentary**

- Our work indicated that there are no material uncertainties in terms of the going concern assessment by the management and no further disclosures are considered necessary in the Financial Statements

**Concluding comments**

**Auditor commentary**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Financial Officer's (s151) use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Financial Officer (s151) has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue

# Significant audit risks

Risks identified in our Audit Plan	Commentary
<p><b>1 Improper revenue recognition</b></p> <p>Under ISA(UK)240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p><b>Auditor commentary</b></p> <p>Having considered the risk factors set out in ISA (UK)240 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> </ul> <p>Therefore we do not consider this to be a significant risk for Pendle Borough Council.</p>
<p><b>2 Management override of controls</b></p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance. Management over-ride of controls is a risk requiring special audit consideration.</p>	<p><b>Auditor commentary</b></p> <p>We have:</p> <ul style="list-style-type: none"> <li>• gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness</li> <li>• obtained a full listing of journal entries during the year, and identified and tested high risk journal entries for appropriateness and correct treatment</li> <li>• evaluated the rationale for any changes in accounting policies or significant unusual transactions.</li> </ul> <p>Our audit work has not identified any issues regarding management override of controls.</p>

# Significant audit risks

Risks identified in our Audit Plan	Commentary
<div data-bbox="68 307 99 335">3</div> <div data-bbox="138 292 493 321">Valuation of land and buildings</div> <p data-bbox="138 364 679 506">The Council revalues its land and buildings using a five year rolling programme to ensure that carrying value is not materially different from current value. This represents a significant estimate by management in the financial statements.</p> <p data-bbox="138 535 679 621">We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration</p>	<div data-bbox="727 292 961 321">Auditor commentary</div> <p data-bbox="727 335 1166 364">In addressing the valuation risk, we have:</p> <ul data-bbox="727 378 2013 771" style="list-style-type: none"><li data-bbox="727 378 2013 435">• evaluated the management's processes and assumptions for the calculation of the estimate, including consideration of the instructions issued to the external valuer and how the scope of the valuer's work has been determined.</li><li data-bbox="727 442 1576 471">• assessed the competency, experience and objectivity of the external valuer.</li><li data-bbox="727 478 2013 535">• met with the valuer to discuss the basis on which valuations have been carried out and confirmed this is consistent with our expectation based on the provisions of the CIPFA Code of Practice and relevant accounting standards</li><li data-bbox="727 542 2013 599">• Identified the data provided to and/or obtained by the valuer to inform the valuation process and confirmed the appropriateness of the data used</li><li data-bbox="727 606 2013 664">• tested revaluations provided during the year to confirm these are accurately reflected in the asset register and that the associated accounting entries have been posted to reflect movements in asset values</li><li data-bbox="727 671 2013 771">• Inspected management's process for obtaining assurance in relation to those assets not subject to formal valuation during the year to confirm the process is sufficiently robust to mitigate the risk that the value of assets not revalued might be materially misstated (either at the level of individual assets or in aggregate).</li></ul> <p data-bbox="727 856 2013 942">Our audit work has not identified any material errors. However a less significant error of land and buildings overstatement was identified as detailed in Appendix C. This misstatement is immaterial to the results of the Council and its financial position at the year-end.</p>

# Significant audit risks


Risks identified in our Audit Plan	Commentary
<div data-bbox="68 321 99 357">4</div> <div data-bbox="138 321 565 342"><b>Valuation of pension fund net liability</b></div> <div data-bbox="138 349 696 428">The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</div> <div data-bbox="138 464 696 518">We identified the valuation of the pension fund net liability as a risk requiring special audit consideration</div>	<div data-bbox="727 321 961 342"><b>Auditor commentary</b></div> <div data-bbox="727 357 1427 382">In addressing the pension fund net liability valuation risk, we have:</div> <div data-bbox="727 435 2003 849"><ul style="list-style-type: none"><li>• identified the controls put in place by management and the controls established by the Lancashire Pension Fund to ensure that the pension fund liability is not materially misstated. We also assessed whether these controls were implemented as expected.</li><li>• evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. On behalf of external audit suppliers to local government, the National Audit Office has commissioned an auditor's expert to undertake a review of the actuaries engaged by local government pension funds, including the Lancashire Pension Fund. We also considered the expert's findings and followed-up on any implications for our audit.</li><li>• undertook procedures to confirm the reasonableness of the actuarial assumptions made, particularly if these are specific to Pendle Borough Council.</li><li>• checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary</li><li>• assessed the advance payment made to the pension fund during the year including the accounting treatment and related disclosures around this payment.</li></ul></div> <div data-bbox="727 899 1806 925">Our audit work has not identified any material issues in relation to valuation of pension fund net liability</div>






# Reasonably possible audit risks

Risks identified in our Audit Plan		Commentary
5	<b>Operating expenses</b> Non-pay expenses on other goods and services also represents a significant percentage of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs.  We identified completeness of non- pay expenses as a risk requiring particular audit attention:	<b>Auditor commentary</b>  We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"><li>• gained an understanding of processes and key controls over the transaction cycle including undertaking walkthrough of the key controls to assess the whether those controls were in line with our documentation</li><li>• tested the year end reconciliation of the accounts payable system to the general ledger</li><li>• assessed the accrual process established by management</li><li>• tested a sample of year end accruals and creditor balances to confirm these accurately reflect year end liabilities</li><li>• tested a sample of payments made in April 2018 to confirm the associated invoices have been accounted for in the correct financial year</li></ul> Our audit work has not identified any material issues in relation to this area.
	<b>Employee remuneration</b>  Payroll expenditure represents a significant percentage of the Council's operating expenses.  As the payroll expenditure comes from a number of individual transactions there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention	<b>Auditor commentary</b>  We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"><li>• Confirmed our understanding of the Council's processes and the associated controls in relation to employee remuneration costs</li><li>• Checked the employee remuneration costs paid are completely and accurately recorded in the general ledger and reported as part of the financial statements</li><li>• Performed substantive analytical procedures to ensure the accuracy and completeness of employee remuneration costs</li></ul> Our audit work has not identified any material issues in relation to this area.


# Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<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. 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> <li>Council Tax and Non Domestic Rate income is recognised in the Collection Fund on an accruals basis, when it is due from the Council Tax or Non Domestic Rate payer. The Council's share of this income is recognised in the CIES.</li> <li>Government grants are recognised when there is reasonable assurance that the Council will comply with any conditions attached to the payments, and the grants or contributions will be received.</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 main elements of the Council's revenues are predictable and there is minimal judgement required from the Council</li> <li>The accounting policies are appropriately disclosed in the statement of accounting policies in the financial statements</li> </ul>	

## Assessment

-  Marginal accounting policy which could potentially be open to challenge by regulators
-  Accounting policy appropriate but scope for improved disclosure
-  Accounting policy appropriate and disclosures sufficient

# Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Judgements and estimates	<p>Key estimates and judgements include:</p> <ul style="list-style-type: none"><li>Long Term agreement with Pendle Leisure Limited from 2000 to 2028 (a registered industrial and provident society) for the provision of Community Arts and Leisure Services within the administrative area of Pendle</li><li>Public /Private partnership with Liberata from 2005 until 2030 for the provision of a range of services previously provided in house</li><li>Joint venture arrangements with a private sector partner trading as Pendle Enterprise and Regeneration Limited</li><li>Pension fund valuations and settlements</li><li>Revaluations and impairments of assets</li><li>Business rates provision</li><li>Debt Impairment</li></ul>	<ul style="list-style-type: none"><li>The Council's accounting policies for key estimates and judgements are appropriate and consistent with the relevant accounting framework – the CIPFA Code of Practice on Local Authority Accounting (the CIPFA Code).</li><li>They are also consistently applied year on year and none of these judgements and estimates are new to 2017/18.</li><li>Critical judgements, estimation uncertainty and accounting policies are appropriately disclosed in notes to the financial statements</li><li>Our audit testing of key estimates and judgements has considered the extent of judgement involved, the potential impact of different assumptions and the range of possible outcomes. We are satisfied that the key estimates and judgements are appropriate and adequately disclosed.</li></ul>	

**Assessment**

- Marginal accounting policy which could potentially be open to challenge by regulators
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

# Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1	<b>Matters in relation to fraud</b>	We have previously discussed the risk of fraud with the Audit and Accounts Committee. We have not been made aware of any incidents in the period relevant to our audit opinion and no other issues have been identified during the course of our audit procedures.
2	<b>Matters in relation to related parties</b>	We are not aware of any related parties or related party transactions which have not been disclosed.
3	<b>Matters in relation to laws and regulations</b>	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work. To this extent we have met with the Council's Monitoring Officer and we sought assurances from the Audit Committee.
4	<b>Written representations</b>	A standard letter of representation has been requested from the Council.
5	<b>Confirmation requests from third parties</b>	We requested and received third party confirmations as relevant from third parties
6	<b>Disclosures</b>	Our review found no material omissions in the financial statements. Management agreed to make a number of additional disclosures in the accounts resulting from the audit as set out in Appendix C.
7	<b>Significant difficulties</b>	No difficulties were experienced in obtaining working papers or explanations for audit queries from the finance team.

# Other responsibilities under the Code

We set out below details of other matters which we, as auditors, are required by the Code to communicate to those charged with governance.

Issue	Commentary
<b>1 Other information</b>	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified as a result of our work. We plan to issue an unqualified opinion in this respect – refer to Appendix E.</p>
<b>2 Matters on which we report by exception</b>	<p>We are required to report by exception in a number of areas:</p> <ul style="list-style-type: none"><li>• If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit</li><li>• If we have applied any of our statutory powers or duties</li></ul> <p>We have nothing to report on these matters.</p>
<b>3 Specified procedures for Whole of Government Accounts</b>	<p>We are not required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack as the Council does not exceed the thresholds set by the NAO group audit team.</p>
<b>4 Certification of the closure of the audit</b>	<p>We intend to certify the closure of the 2017/18 audit of Pendle Borough Council in the audit opinion, as detailed in Appendix E.</p>

# Value for Money

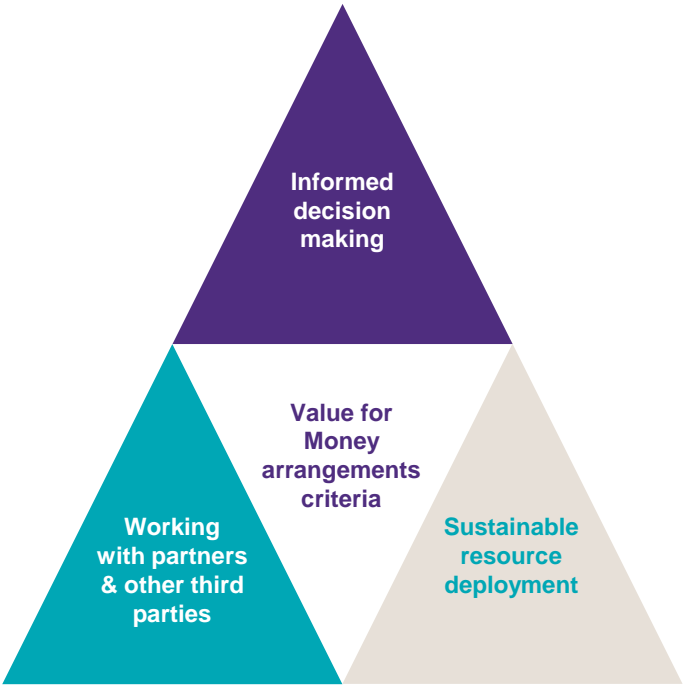
## Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

*“In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.”*

This is supported by three sub-criteria, as set out below:



## Risk assessment

We carried out an initial risk assessment in January 2018 and identified one significant risk in respect of sustainable resource development using the guidance contained in AGN03. We communicated this risk to you in our Audit Plan in March 2018.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

In relation to Pendle Borough Council , we did not identify any arrangements that are not operating effectively and therefore such reporting in our VFM conclusion is not required.

Our work done in respect of the significant risk identified and conclusions reached are reported at page 15 and 16.

# Value for Money

## Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risk that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- Success in recent past on minimising net expenditure from our cumulative knowledge and experience of Pendle Council
- Achievement of 2017/18 out-turn
- Medium Term Financial Plan (MTFP) and robustness of that plan
- Assumptions and challenges to the MTFP
- Strategic Plan

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work on page 16.

## Overall conclusion

Based on the work we performed to address the significant risks, we concluded that:

- the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources.

The text of our report, which confirms this can be found at Appendix E.

## Recommendations

We discussed our findings arising from our work with management and have not identified any recommendations as such. However we have discussed the importance of the savings plans and longer term unsustainable position of utilising earmarked reserves on a continuing basis. The management is fully aware of this situation and working on monitoring and achievement of future savings plans to minimise the usage of such reserves.

## Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

## Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings	Conclusion
<p><b>1 Medium Term Financial Plan (MTFP)</b></p> <p>Management provide regular updates to members detailing the Council's medium-term financial position. Whilst the Council has been successful in recent years in reducing the Council's net expenditure, the Council still needs to find significant savings over the period 2018-2021. The Council needs to ensure that robust, credible plans are in place to deliver the savings required.</p>	<ul style="list-style-type: none"> <li>• Council achieved the approved revised budget for 2017/18 with a £183,600 surplus.</li> <li>• The Council updated its MTFP which went to the Policy and Resource Committee and full Council in May 2018 . This covers until 2019/2022. However there is uncertainty beyond 2019/20 given that the 2019 Spending review will cover government funding from 2020/21 onwards</li> <li>• The position on earmarked reserves as at 31 March 2018 is £7.1 million with a general fund minimum working balance of a further £1 million giving £8.1 million in total . This includes a £3.3 million Budget Strategy Reserve (BSR) as at 31 March 2018.</li> <li>• 2018/19 : Total budget savings of £0.847m were achieved and together with a BSR contribution of £990,100, the budget was balanced for 2018/19. These savings were achieved up front by Pendle Borough Council prior to 1 April 2018.</li> <li>• For 2019/20 there is planned utilisation of £1.1 million of BSR and a further £955,000 savings are required to bridge the budget gap. The Council is actively working on this savings plan and it is currently work in progress.</li> <li>• Quarterly monitoring is reported to policy and resource committee and actions suggested.</li> <li>• By the end of the MTFP in 21/22 the Council would have utilised all of the BSR of £3.3 million subject to achievement of savings plans. There is uncertainty beyond 2019/20 on core funding across all local authorities due to ongoing Fair Funding Review and the redesign of the Business Rates Retention Scheme.</li> </ul>	<p><b>Auditor view</b></p> <ul style="list-style-type: none"> <li>• The Council has a track record of managing the expenditure within budget. 2018/19 savings targets were achieved up front prior to 1 April 2018.</li> <li>• Council is actively working on the identification of the savings targets for 2019/20. This process is currently under way and will be agreed and finalised in due course.</li> <li>• Overall there is a close monitoring of expenditure and assessments against savings plans at Pendle. However, with volatile demand pressures and limited flexibility in funding mechanisms in local government, there is a risk that net expenditure may fluctuate adversely. This may impact the usage of planned earmarked reserves in any given year.</li> <li>• Using reserves to fund the budget gap is not a sustainable position over the medium to longer term and the Council needs to continue its work to identify realistic savings plans and monitor the achievement of plans against actual performance on a regular basis.</li> </ul>



# Independence and ethics

## **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 Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant matters that may bear upon the integrity, objectivity and independence of the firm or covered persons (including its partners, senior managers and managers). In this context, we disclose the following to you:

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are at Appendix C

## **Non-audit services**

No non audit services were provided during year ended 31 March 2018

# Action plan

We have identified two recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2018/19 audit. 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.

Issue and risk		Recommendations	
1	<ul style="list-style-type: none"><li>During our work on land and building valuations four duplicate entries in the asset register were found. These occurred due to an extra character being added to the asset number after revaluation. This has meant that the asset number looks unique to the system and it has therefore caused a duplicate entry in the asset register resulting in overstatement of asset valuations.</li></ul>	<ul style="list-style-type: none"><li>Ensure that all asset numbers are the same character length after revaluation to avoid any duplication. Review the process on a regular basis to ensure that yearly valuations are recorded accurately in the fixed asset register.</li></ul>	
		<b>Management response</b> <ul style="list-style-type: none"><li>Additional reconciliation practices will be added into the Closure of Accounts process. All working papers issued to sections or organisations outside of the Finance Services Team will be reconciled on return to ensure that the original information and or data has not been corrupted and changed in any way. This will also be adopted as best practice and applied to other key processes and projects such as the budget setting process to mitigate against the risk of erroneous data being included in our financial records.</li></ul>	
2	<ul style="list-style-type: none"><li>During our audit work we identified that the financial statements have disclosed both the Expenditure and Funding Analysis (EFA) and the Segmental Analysis (formally disclosed as amounts reported for resource allocation decisions) disclosure notes. The introduction to the financial statements (page 5) in fact indicates that from 2016/17 the EFA note replaced the segmental analysis note. Considering the length of this note we discussed the over disclosure with the management.</li></ul>	<ul style="list-style-type: none"><li>We recommend that management regularly review the disclosure requirements in line with CIPFA/LASAAC code of practice on local authority accounting and ensure only the required disclosures are reported in the financial statements as relevant to Pendle BC. We believe this would particularly benefit the management when working to tight closedown deadlines and accounts decluttering activities going forward.</li></ul>	
		<b>Management response</b> <ul style="list-style-type: none"><li>We were fully aware of the disclosure requirements, however, the two statements were originally included in the Statement of Accounts (SOAs) for transparency and to illustrate the changed format. On reflection this is contradictory to the principle of de-cluttering the SOAs document. The Segmental Analysis note will be deleted. The CIPFA/LASAAC code of practice on local authority accounting will continue to be reviewed in preparation for each Closure of Accounts rounds</li></ul>	

# Follow up of prior year recommendations

We identified the following issues in the audit of Pendle Council's 2016/17 financial statements, which resulted in 3 recommendations being reported in our 2016/17 Audit Findings report. We are pleased to report that management have implemented two of the three of our recommendations and work is still ongoing regarding one as detailed below.

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	✓	Ensure quality control checks completed in relation to capital accounting confirm expected asset disposals have completed prior to the year end.	Finance now ensure that all completion statements regarding disposals of assets are now in their possession when monitoring and maintaining the Asset Register (with Liberata and Legal colleagues). These tended to follow in practice but we have now firmed up arrangements to ensure a more proactive approach is taken.  No further follow up required.
2	✓	Review the arrangements for producing the analysis of Net Cost of Services in the Comprehensive Income and Expenditure to streamline the process for preparing the statement	Work is still required to complete the streamlining of SERCOP reporting arrangements to those of the Management Accounts ('Telling the Story') for production and analysis of the NCOS. Presently a reconciliation exercise is undertaken between SERCOP analysis and the management accounts outturn position, showing the Service segments that require adjustment – with clear audit trail. The process will be reviewed again in 2018/19 and further developed and streamlined.  To be followed up in 2018/19
3	✓	Assess whether consolidating Directorate Headings, which relate to similar areas of spend in the Net Cost of Services analysis	Liberata Services – disclosed separately in 2016/17 now subsumed within Financial Services as per Management Account arrangements and consolidated on the face of the CIES.  No further follow up required.

## Assessment

- ✓ Action completed
- X Not yet addressed

# Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

## Impact of adjusted misstatements

There were no adjusted misstatements that would impact the financial performance or position of the Council's financial statements for the year ended 31 March 2018 .

## Misclassification and 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.

### Misclassification/Disclosure omission

	Detail	Adjusted?
<b>Accounting policy – Page 31</b>	<ul style="list-style-type: none"> <li>Property plant and Equipment (PPE) accounting policy indicates that assets under construction and community assets are measured at depreciated historical cost . This is incorrect as these are not depreciated and measured at historic cost. The accounting policy note should be amended to disclose the correct treatment.</li> </ul>	<b>Yes</b>
<b>Accounting policy – Page 32</b>	<ul style="list-style-type: none"> <li>The accounting policy says that PPE are valued at least every 5 years . This is incorrect as only land and buildings are valued at least every 5 years . Non land and buildings are not valued at least every 5 years. The accounting policy note should be amended to disclose the correct treatment.</li> </ul>	<b>Yes</b>
<b>Events after the balance sheet date –Page 59</b>	<ul style="list-style-type: none"> <li>More narrative added to the disclosure in line with relevant accounting standard disclosure requirements per Code guidance paragraph 3.8.4.3</li> </ul>	<b>Yes</b>
<b>Movement in earmarked reserves – Page 62</b>	<ul style="list-style-type: none"> <li>More narrative has been added to reconcile Movement in Reserves note on page 52 with note 7 Movement in Earmarked Reserves</li> </ul>	<b>Yes</b>
<b>Defined Benefit Pension scheme – Pages 88- 90</b>	<ul style="list-style-type: none"> <li>Additional narrative is added to highlight the figures reported are Pendle Borough Council's share of assets and liabilities as at 31 March 2018</li> </ul>	<b>Yes</b>
<b>Revaluation Reserve – Page 71</b>	<ul style="list-style-type: none"> <li>Amended disclosure table to show gross position for upward and downward revaluation of assets rather than reporting the net position.</li> </ul>	<b>Yes</b>
<b>Other disclosure adjustments – various</b>	<ul style="list-style-type: none"> <li>Amended the financial statements for minor disclosure changes as a result of accounts checking exercise done by Grant Thornton LLP for casting , cross casting and internal references</li> </ul>	<b>Yes</b>

# Audit Adjustments

## Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2017/18 audit which have not been made within the final set of financial statements. The Accounts and Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail		Comprehensive Income and Expenditure Statement £'000	Balance Sheet £' 000		Impact on total net expenditure £'000	Reason for not adjusting
1	During our work on Land and building valuations four duplicate entries in the asset register were found. This was due to an extra character being added to the asset number after revaluation. This has meant that the asset number looks unique to the system and it has therefore caused a duplicate entry in the asset register resulting overstatement of asset valuations.	Not impacting the CIES. No depreciation charged on these assets	Cr PPE	80	Nil	Not adjusted the financial statements for this misstatement as it is immaterial to the results of the Council and its financial position at the year-ended 31 March 2018.
Overall impact		£Nil	£Nil		£Nil	

# Fees

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

**Audit Fees**

	Proposed fee	Final fee
Council Audit	40,630	40,630
Grant Certification	7,986	TBC*
Total audit fees (excluding VAT)	£48,616	£TBC*

\* Work not started

**Non Audit Fees**

No non-audit or audited related services have been undertaken for the Council

# Audit opinion – unsigned for reference

We anticipate we will provide the Council with an unmodified audit report or amend as appropriate

## Independent auditor's report to the members of Pendle Borough Council

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Pendle Borough Council (the 'Authority') for the year ended 31 March 2018 which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. 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 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2018 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's 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.

## Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Financial Officer's (s151) use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Financial Officer (s151) has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

**Other information**

The Chief Financial Officer (s151) is responsible for the other information. The other information comprises the information included in the Statement of Accounts: the 'Narrative Report for 2017/18 by the Chief Financial Officer' (pages 6 to 20) and the 'Annual Governance Statement' (pages 40- 50), other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the course of our work including that gained through work in relation to the Authority's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Other information we are required to report on by exception under the Code of Audit Practice**

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

**Opinion on other matter required by the Code of Audit Practice**

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, 'Narrative Report for 2017/18 by the Chief Financial Officer' (pages 6 to 20) and the 'Annual Governance Statement' (pages 40- 50), for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Matters on which we are required to report by exception**

Under the Code of Audit Practice we are required to report to you if:  
we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or  
we have made a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or  
we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in respect of the above matters.

**Responsibilities of the Authority, the Chief Financial Officer (s151) and Those Charged with Governance for the financial statements**

As explained more fully in the Statement of Responsibilities set out on page 38, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Financial Officer (s151). The Chief Financial Officer (s151) 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 2017/18, which give a true and fair view, and for such internal control as the Chief Financial Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.



In preparing the financial statements, the Chief Financial Officer (s151) is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the Authority.

The Accounts and Audit Committee is Those Charged with Governance

#### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

#### **Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources**

##### **Conclusion**

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that *the Authority* put in place proper arrangements for securing economy, efficiency

and effectiveness in its use of resources for the year ended 31 March 2018.

##### **Responsibilities of the Authority**

The Authority is responsible for putting in place proper arrangements for securing 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.

#### **Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources**

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made 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.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that 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 2018.

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 be satisfied that the Authority has put in place proper arrangements for securing

economy, efficiency and effectiveness in its use of resources.

## **Unsigned for reference**

**Report on other legal and regulatory requirements - Certificate**

We certify that we have completed the audit of the financial statements of the Authority in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Mark R Heap (to be signed)

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

Grant Thornton UK LLP  
4, Hardman Square  
Spinningfields  
Manchester  
M3 3EB

Date : To be dated

**Unsigned for reference**

