



Annual Audit Letter

Year ending 31 March 2018

Pendle Borough Council
August 2018



Contents



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Section

1. Executive summary
2. Audit of the accounts
3. Value for Money conclusion

Appendices

- A Reports issued and fees

Page

3

5

10

12

Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Pendle Borough Council (the Council) for the year ended 31 March 2018.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Accounts and Audit Committee as those charged with governance in our Audit Findings Report on 26 July 2018.

Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £1,063,000 which is 2% of the Council's gross revenue expenditure.
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 30 July 2018.
Whole of Government Accounts (WGA)	We completed work on the Council's consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Executive Summary

Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Accounts and Audit Committee on 26 July 2018.
Certification of Grants	We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2018. We will report the results of this work to the Accounts and Audit Committee in our Annual Certification Letter.
Certificate	We certify that we have completed the audit of the accounts of Pendle Borough Council in accordance with the requirements of the Code of Audit Practice.

Working with the Council

During the year we have delivered a number of successful outcomes with you. Some of them were:

- Conducting an efficient audit – we managed and delivered an efficient audit with your co-operation. Considering the shorter audit deadline compared to previous years, this is a good example of working efficiently with your finance staff to achieve shared goals.
- Sharing our insight – we provided regular audit and governance committee updates covering best practice and sector updates. We conducted regular liaison meetings with your senior management on matters that are important to the Council and us as your external auditor.
- Providing training – we provided your finance teams with training on financial accounts and annual reporting to better prepare for 2017/18 accounts closedown

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
August 2018

Audit of the Accounts

Our audit approach

Materiality

In our audit of the Council's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions by reading the financial statements.

We determined materiality for the audit of the Council's accounts to be £1,063,000 which is 2% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of Councils' financial statements are most interested in where the Council has spent its income in the year.

We also set lower level of specific materialities for senior officer remuneration and related party transactions of £8,000 and £59,000 respectively.

We set a lower threshold of £53,000 above which we reported errors to the Accounts and Audit Committee in our Audit Findings Report.

The scope of our audit

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

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

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

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

Our audit approach is based on a thorough understanding of the Council's activities and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Accounts

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of Land and Buildings</p> <p>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>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration</p>	<p>In addressing the valuation risk, we:</p> <ul style="list-style-type: none"> evaluated 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. assessed the competency, experience and objectivity of the external valuer. 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. Identified the data provided to and/or obtained by the valuer to inform the valuation process and confirmed the appropriateness of the data used. 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. 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). 	<p>Our audit work did not identify any material issues in relation to valuation of land and buildings.</p>

Audit of the Accounts

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of pension fund net liability</p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration</p>	<p>In addressing the pension fund net liability valuation risk, we:</p> <ul style="list-style-type: none"> • 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. • 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. • undertook procedures to confirm the reasonableness of the actuarial assumptions made, particularly if these are specific to Pendle Borough Council. • 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. • assessed the advance payment made to the pension fund during the year including the accounting treatment and related disclosures around this payment. 	<p>Our audit work did not identify any material issues in relation to valuation of pension fund net liability.</p>

Audit of the Accounts

Significant Audit Risks (continued)

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Management override of controls</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.</p> <p>Management over-ride of controls is a risk requiring special audit consideration.</p>	<p>In addressing the management override of controls risk, we:</p> <ul style="list-style-type: none">gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness.obtained a full listing of journal entries during the year, and identified and tested high risk journal entries for appropriateness and correct treatment.evaluated the rationale for any changes in accounting policies or significant unusual transactions.	<p>Our audit work did not identify any issues regarding management override of controls.</p>

Audit of the Accounts

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 30 July 2018, in advance of the national deadline.

Preparation of the accounts

The Council presented us with draft accounts in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit to the Council's Accounts and Audit Committee on 26 July 2018. There were no adjustments to the financial statements impacting on the Statement of Comprehensive Income and Expenditure and the Balance Sheet.

In addition to the key audit risks reported on pages 6 to 8, we made recommendations to support the Council in strengthening its internal controls. Management agreed to action our recommendations and we will follow this up during our 2018/19 audit of the Council.

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. The Council published them on its website alongside the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We were satisfied that both documents were consistent with the financial statements we audited and in line with our knowledge of the Council obtained during the course of our audit.

Whole of Government Accounts (WGA)

We carried out work on the Council's Data Collection Tool in line with group audit instructions provided by the NAO. We issued an assurance statement to the NAO which confirmed the Council was below the audit threshold. There were no other matters to report to the NAO in connection with group audit instructions.

Other statutory powers

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

We did not need to exercise any of our additional statutory powers or duties during the course of our audit.

Certificate of closure of the audit

We are also required to certify that we have completed the audit of the accounts of Pendle Borough Council in accordance with the requirements of the Code of Audit Practice and applicable law.

On 30 July 2018, we certified that we have completed the audit of the financial statements of the Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office on behalf of the Comptroller and Auditor General.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

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

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

We identified one significant risk as part of this assessment. Our continuing risk assessment during the course of the audit did not identify any further significant risks.

Work we performed and our findings are set out at page 11 of this Letter.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2018.

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>Medium Term Financial Plan (MTFP)</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"> • Council achieved the approved revised budget for 2017/18 with a £183,600 surplus. • 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 • 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. • 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. • 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. • Quarterly monitoring is reported to policy and resource committee and actions suggested. • 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. 	<p>Auditor view</p> <ul style="list-style-type: none"> • 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. • 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. • The Council is actively working on the identification of the savings targets for 2019/20. This process is currently underway. Revenue Support Grant is due to be withdrawn in 2020/21 and future funding arrangements in this respect are yet to be fully clarified. This represents an additional significant risk to the Council's future funding arrangements. • Overall there is 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.

Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	20 March 2018
Audit Findings Report	26 July 2018
Annual Audit Letter	August 2018

Non- audit services

No non audit or audit related services have been undertaken for the Council for the year ended 31 March 2018

Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory Council audit	40,630	40,630	40,630
Housing Benefit Grant Certification	7,986	TBC*	10,380
Total fees	48,616	TBC*	51,010

* Our work on Housing Benefit Grant Certification is still on going and the reporting deadline for this is 30 November 2018. Therefore we are unable to confirm the actual fees for this work in the Annual Audit Letter. We will report the final fees for this work to the Accounts and Audit Committee in our Annual Certification Letter.



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