



# The Annual Audit Letter for Pendle Borough Council

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**Year ended 31 March 2019**

**23 August 2019**



# Contents



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## Section

1. Executive Summary
2. Audit of the Financial Statements
3. Value for Money conclusion

## Page

- 3  
5  
9

## Appendices

- A Reports issued and fees

# 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 2019.

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 30 July 2019.

## Our work

<b>Materiality</b>	We determined materiality for the audit of the Council's financial statements to be £1,006,000, which was 2% of the Council's gross revenue expenditure.
<b>Financial Statements opinion</b>	We gave an unqualified opinion on the Council's financial statements on 31 July 2019.
<b>Whole of Government Accounts (WGA)</b>	We confirmed to the NAO that no further work was required under WGA as the Council does not exceed the NAO's threshold specified for Income, expenditure, assets or liabilities.
<b>Use of statutory powers</b>	We did not identify any matters which required us to exercise our additional statutory powers.
<b>Value for Money arrangements</b>	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 Council on 31 July 2019.
<b>Certification of Grants</b>	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 2019. We will report the results of this work to the Accounts and Audit Committee separately.
<b>Certificate</b>	We certified that we have completed the audit of the financial statements of Pendle Borough Council in accordance with the requirements of the Code of Audit Practice on 31 July 2019.

## 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.

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# Executive Summary

## **Working with the Council**

As in previous years we have worked with Council staff in preparing to meet the new statutory accounts deadline of 31 May. We were pleased to receive the draft financial statements on 31 May 2019.

Good working papers were available in advance of the start of our audit visit on 3 June 2019. This demonstrates the Council's ongoing commitment to good quality, timely financial statements.

Finance staff responded promptly and knowledgeably to our questions and queries during the audit, enabling us deliver our audit opinion on 31 July 2019.

During the year we also:

- Shared our insight – we provided regular audit committee updates covering best practice. We also shared our thought leadership reports
- Provided training – we provided your teams with training on financial accounts and annual reporting.

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 2019

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# Audit of the Financial Statements

## 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.

We determined materiality for the audit of the Council's financial statements to be £1,006,000 which is 2% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We also set a lower level of specific materiality for senior officer remuneration of £6,000.

We set a lower threshold of £50,300, 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 financial statements and the narrative report and annual governance statement published alongside the financial statements to check it is consistent with our understanding of the Council and with the financial statements included in the Annual Report 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 was based on a thorough understanding of the Council's business 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.

The Financial Reporting Council (FRC) is responsible for reviewing and assessing the quality of local public audit work undertaken by Grant Thornton and the other audit firms. In response to the latest feedback from the FRC on local public audit work we have updated and refined our approach to the audit of PPE and Pensions Liabilities, which has resulted in additional audit procedures being undertaken. We have included fee adjustments to cover these additional procedures which are set out at page 11 of this report.

# Audit of the Financial Statements

## 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><b>Management override of internal 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. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>In response to this risk we</p> <ul style="list-style-type: none"> <li>evaluated the design effectiveness of management controls over journals</li> <li>analysed the journals listing and determine the criteria for selecting high risk or unusual journals</li> <li>tested high risk / unusual journals recorded for appropriateness and corroboration</li> <li>gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence</li> <li>evaluated the rationale for changes in accounting policies, estimates or significant unusual transactions.</li> </ul>	<p>Our audit work did not identify any issues in respect of management override of controls.</p>
<p><b>Valuation of land and buildings</b></p> <p>The Authority revalues its land and buildings on a rolling programme basis over a five year period. Additional valuations are undertaken, above and beyond those planned as part of the five-year programme, if these are considered necessary to ensure that the carrying value of land and buildings is not materially different from current value at the Balance Sheet date.</p> <p>This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p>In response to this risk we:</p> <ul style="list-style-type: none"> <li>evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work</li> <li>evaluated the competence, capabilities and objectivity of the valuation expert</li> <li>wrote to the valuer to confirm the basis on which the valuation was carried out</li> <li>challenged the information and assumptions used by the valuer to assess the completeness of source data and consistency with our understanding,</li> <li>tested revaluations made during the year to see if they have been input correctly into the Authority's asset register</li> <li>evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.</li> </ul>	<p>Our audit work did not identify any issues in respect of valuation of land and buildings at 31 March 2019.</p>

# Audit of the Financial Statements

## 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><b>Valuation of net pension liability</b></p> <p>The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the estimated valuation in the Authority's balance sheet and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p>In response to this risk we have:</p> <ul style="list-style-type: none"> <li>• updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated the design of the associated controls;</li> <li>• evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;</li> <li>• assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation;</li> <li>• assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability;</li> <li>• tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;</li> <li>• undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and</li> <li>• obtained assurances from the auditor of Lancashire County Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.</li> </ul>	<p>On 12 July the Actuary issued a revised estimate of the pension funds assets and liabilities, recognising the additional liabilities arising from the McCloud judgement. Management have considered these revised estimates and determined that the financial statements should not be amended for these as they are not material.</p> <p>We identified the revision to the estimate as a non material unadjusted misstatement and reported this to Accounts and Audit Committee on 30 July 2019.</p> <p>Our work did not identify any other issues relating to the valuation and reporting of the pension fund net liability that we needed to bring to your attention</p>

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# Audit of the Financial Statements

## **Audit opinion**

We gave an unqualified opinion on the Council's financial statements on 31 July 2019.

## **Preparation of the financial statements**

The Council presented us with draft financial statements 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 financial statements**

We reported the key issues from our audit to the Council's Accounts and Audit Committee on 30 July 2019.

## **Annual Governance Statement and Narrative Report**

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website within 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 confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

## **Whole of Government Accounts (WGA)**

We carried out work on the Council's Data Collection Tool in line with instructions provided by the NAO . We issued an assurance statement which confirmed the Council was below the audit threshold

## **Certificate of closure of the audit**

We certified that we have completed the audit of the financial statements of Pendle Borough Council in accordance with the requirements of the Code of Audit Practice on 31 July 2019.

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# 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 risks where we concentrated our work.

The risk we identified and the work we performed are set out overleaf.

## **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 2019.

# Value for Money conclusion

## Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Financial sustainability</b></p> <p>The Council has a track record of managing expenditure within budget and the 2018/19 savings target of £847,000 had been achieved upfront prior to 1 April 2018. However a contribution from the Budget Strategy Reserve (BSR) was required to achieve a balanced budget.</p> <p>For 2019/20 There is further planned utilisation of reserves of £1.1m</p> <p>By the end of the Medium Term Financial Plan (MTFP) in 21/22 the Council is projecting the utilisation of all £3.3 million of the Budget Strategy Reserve (BSR) subject to achievement of savings plans.</p> <p>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> <p>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.</p>	<p>We monitored the Authority's financial position through regular meetings with senior management and consider how the Authority manages its budget. We assessed progress in the identification and delivery of the future savings required as identified in the current iteration of the MTFP.</p>	<p>The Council demonstrates a well supported budget setting process. This process incorporates an appropriate level of challenge and scrutiny from member committees to ensure budgets are achievable operationally, input from a range of stakeholders to ensure the budget remains relevant, a good level of support from finance to ensure budgets are achievable from a resourcing perspective and that there is ongoing budget monitoring and updates for new information throughout the year to ensure budgets remain appropriate;</p> <p><b><u>Revenue Outturn 2018/19</u></b></p> <p>Consistent with previous years the Council has delivered its planned outturn for 2018/19 with a balanced position against its net expenditure budget of £12.197m delivering its savings of £847,000 and utilised £785,463 from the Budget Strategy reserve (a reduction of £204,637 on the original planned transfer figure of £990,100).</p> <p>Individual service budgets delivered broadly on target and the Council maintained its General Fund Balance at £1,000,000 which has been the level the Council has set for several years as the 'minimum working balance', together with £6.374m in Earmarked Reserves, including £2.988m in the Budget Strategy Reserve.</p> <p><b><u>2019/20 Budget and Medium Term Financial Strategy</u></b></p> <p>In February 2019 the Council approved a balanced budget for 2019/20 as a net budget of £12.908m. As in previous years the budget was set with prudent assumptions, including allowances for inflation, pay increases and a range of other growth factors which are likely to occur over the course of the year, together with realistic assumptions on the levels of income from fees and charges in the current economic climate.</p> <p>The Council's MTFP covers the financial periods 2020/21 to 2021/22. The MTFP recognises the ongoing pressures from core spending reductions and required savings of £2.9m over the two year period. The MTFP also recognises the significant risks arising from key pressures such as inflationary expenditure costs, volatility in business rates and limits on Council Tax increases. Mitigating actions have been identified where possible.</p> <p>Work continues to identify the £2.9m savings over the following two years. However, the Council is still forecasting to have virtually exhausted its Budget Strategy Reserve by 31 March 2022.</p> <p><b>A balanced plan has been prepared for 2019/20 and the MTFP remains realistic in terms of current understanding on central government plans. However, uncertainty remains around the Local Government Spending Review, which has now been deferred for another year and will not take effect until the 2021-22 financial year. Both Officers and Members need to make sure that effective financial management continues to be at the heart of all decisions to ensure that the Council is best placed to deal with the challenges ahead.</b></p> <p><b>We concluded that the Council has effective arrangements in place for sustainable resource deployment.</b></p>

# A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit. There were no non-audit services provided.

## Reports issued

Report	Date issued
Audit Plan	March 2019
Audit Findings Report	July 2019
Annual Audit Letter	August 2019

## Fees

	Planned £	Actual fees 2017/18 £	2018/19 fees £
Statutory audit	31,285	35,785*	40,630
Housing Benefit Grant Certification	8,690	TBC	7,986
<b>Total fees</b>	<b>39,975</b>	<b>TBC</b>	<b>48,616</b>

## Audit fee variation

As outlined in our audit plan, the 2018-19 scale fee published by Public Sector Audit Appointments Ltd (PSAA) of £31,285 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following table. Additional fees are subject to approval by the PSAA.

Area	Reason	Fee proposed
<b>Assessing the impact of the McCloud ruling</b>	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we have considered the potential impact of the revised actuarial assessment on the financial statements along with any audit reporting requirements.	£1,500
<b>Additional audit procedures on Pensions liabilities</b>	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year to reflect this.	£1,500
<b>PPE Valuation – work of experts</b>	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	£1,500
<b>Total</b>		<b>£4,500</b>

## Our commitment to our local government clients

- Senior level investment
- Local presence enhancing our responsiveness, agility and flexibility.
- High quality audit delivery
- Collaborative working across the public sector
- Wider connections across the public sector economy, including with health and other local government bodies
- Investment in Health and Wellbeing, Social Value and the Vibrant Economy
- Sharing of best practice and our thought leadership.
- Invitations to training events locally and regionally – bespoke training for emerging issues
- Further investment in data analytics and informatics to keep our knowledge of the areas up to date and to assist in designing a fully tailored audit approach

## Our relationship with our clients – why are we best placed?

- We work closely with our clients to ensure that we understand their financial challenges, performance and future strategy.
- We deliver robust, pragmatic and timely financial statements and Value for Money audits
- We have an open, two way dialogue with clients that support improvements in arrangements and the audit process
- Feedback meetings tell us that our clients are pleased with the service we deliver. We are not complacent and will continue to improve further
- Our locally based, experienced teams have a commitment to both our clients and the wider public sector
- We are a Firm that specialises in Local Government, Health and Social Care, and Cross Sector working, with over 25 Key Audit Partners, the most public sector specialist Engagement Leads of any firm
- We have strong relationships with CIPFA, SOLCAE, the Society of Treasurers, the Association of Directors of Adult Social Care and others.

## New opportunities and challenges for your community

### The Local Government economy

Local authorities face unprecedented challenges including:

- Financial Sustainability – addressing funding gaps and balancing needs against resources
- Service Sustainability – Adult Social Care funding gaps and pressure on Education, Housing, Transport
- Transformation – new models of delivery, greater emphasis on partnerships, more focus on economic development
- Technology – cyber security and risk management

At a wider level, the political environment remains complex:

- The government continues its negotiation with the EU over Brexit, and future arrangements remain uncertain.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.

## Delivering real value through:

- Early advice on technical accounting issues, providing certainty of accounting treatments, future financial planning implications and resulting in draft statements that are 'right first time'
- Knowledge and expertise in all matters local government, including local objections and challenge, where we have an unrivalled depth of expertise.
- Early engagement on issues, especially on ADMs, housing delivery changes, Children services and Adult Social Care restructuring, partnership working with the NHS, inter authority agreements, governance and financial reporting
- Implementation of our recommendations have resulted in demonstrable improvements in your underlying arrangements, for example accounting for unique assets, financial management, reporting and governance, and tax implications for the Cornwall Council companies
- Robust but pragmatic challenge – seeking early liaison on issues, and having the difficult conversations early to ensure a 'no surprises' approach – always doing the right thing
- Providing regional training and networking opportunities for your teams on technical accounting issues and developments and changes to Annual Reporting requirements
- An efficient audit approach, providing tangible benefits, such as releasing finance staff earlier and prompt resolution of issues.

## Grant Thornton in Local Government

### Our client base and delivery



- We are the largest supplier of external audit services to local government
- We audit over 150 local government clients
- We signed 95% of our local government opinions in 2017/18 by 31 July
- In our latest independent client service review, we consistently score 9/10 or above. Clients value our strong interaction, our local knowledge and wealth of expertise.

### Our connections



- We are well connected to MHCLG, the NAO and key local government networks
- We work with CIPFA, Think Tanks and legal firms to develop workshops and good practice
- We have a strong presence across all parts of local government including blue light services
- We provide thought leadership, seminars and training to support our clients and to provide solutions

### Our people



- We have over 25 engagement leads accredited by ICAEW, and over 250 public sector specialists
- We provide technical and personal development training
- We employ over 80 Public Sector trainee accountants

### Our quality



- Our audit approach complies with the NAO's Code of Audit Practice, and International Standards on Auditing
- We are fully compliant with ethical standards
- Your audit team has passed all quality inspections including QAD and AQRT

### Our technical support



- We have specialist leads for Public Sector Audit quality and technical
- We provide national technical guidance on emerging auditing, financial reporting and ethical areas
- Specialist audit software is used to deliver maximum efficiencies



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