

Annual governance report

Pendle Borough Council

Audit 2011/12



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Key messages

This report summarises the findings from the 2011/12 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial statements

By the deadline of 30 September 2012 I expect to issue an unqualified audit opinion. The accounts presented for audit were prepared to a good standard with few amendments required. I would like to thank the finance team for their support and co-operation during the audit.

Value for money (VFM)

I expect to conclude that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

I have considered the two criteria:

- securing financial resilience; and
- securing economy, efficiency and effectiveness.

The Council has set a balanced budget for 2011/12 and has updated the medium term financial strategy for future years. The Council continues to report performance and achievements against the priorities identified in the strategic plan. The medium term financial strategy identifies that over the next few years the Council has significant savings to make.

Before I give my opinion and conclusion

My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit to identify all matters that might be relevant to you.

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) – Integrity, Objectivity and Independence.

I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Authority during 2011/12.

I ask the Audit Committee to:

- take note of the adjustments to the financial statements included in this report (appendix 2); and
- approve the letter of representation (appendix 3), on behalf of the Authority before I issue my opinion and conclusion.

Financial statements

The Authority's financial statements and annual governance statement are important means by which the Authority accounts for its stewardship of public funds. As elected Members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

Opinion on the financial statements

Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements by the deadline of 30 September 2012. Appendix 1 contains a copy of my draft audit report.

Uncorrected errors

There are no uncorrected errors in the accounts.

Corrected errors

During the course of the audit the Council has agreed to make some amendments and improvements to the disclosures included in the accounts.

There is a new requirement for the Council to include heritage assets in the accounts at cost or an appropriate valuation. My testing of the value included for civic regalia identified that it did not agree to supporting valuation information. This has now been amended.

Note 14 financial instruments did not comply with the requirements of the Code. There were some bank accounts not originally included in the investments section. The debtors and creditors disclosures originally included items which were due to or from the Council under statute, such as those relating to Council Tax, where only those due under contract should be included. The note has been amended to ensure compliance.

I also identified an issue in respect of the funding associated with Revenue Expenditure Funded from Capital under Statute (REFCUS). This relates to income and expenditure incurred which is capital in nature, but does not lead to the creation of an asset recognised by the Council. This is usually expenditure on assets belonging to a third party. I identified that where the Council had incurred expenditure classified as REFCUS this had been correctly allocated to services, however the matching funding had not been allocated in the same way. This has now been amended in the statement of accounts.

The details of these amendments are included in appendix 2.

Significant risks and my findings

I reported to you in my January Audit Plan the significant risks that I identified relevant to my audit of your financial statements. In table 1 I report to you my findings against each of these risks.

Table 1: **Risks and findings**

Risk	Finding
<p>Valuation of Property, Plant and Equipment (PPE)</p> <p>The Code sets out requirements for the Council to regularly revalue classes of assets held. Qualified valuers undertake this work on the instructions of the Council.</p> <p>If the value of the assets is incorrect, or if assets are misclassified between categories, there is a risk the valuation reported in the financial statements could be materially misstated.</p>	<p>I have evaluated the instructions given to the Council's valuer against the CIPFA guidance and the valuers' qualifications and independence. I have tested a sample of assets to satisfy myself that the valuation of heritage assets accounted for by the Council and disclosed in the financial statements was in line with the requirements of the Code.</p> <p>Other than the issue referred to above, my testing has not identified any issues to bring to your attention.</p>
<p>IAS 19 Pensions liability</p> <p>The Council has a pensions liability of £39.505m at 31 March 2012. This liability represents the extent to which the present value of liabilities exceeds the fair value of assets. This has a substantial impact on the net worth of the Council as recorded in the Balance Sheet.</p>	<p>I reviewed and tested controls over the accuracy and completeness of information provided by the pension fund to the Actuary in respect of the Council. I have evaluated the work of the Actuary using an expert commissioned by the Audit Commission for this purpose. I have tested the entries within the Council's financial statements and disclosure notes to ensure they agree to the information provided by the Actuary.</p> <p>My testing has not identified any issues to bring to your attention.</p>

Risk

The liabilities are assessed on an actuarial basis using the projected unit credit method. This is an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. The liabilities are assessed by Mercers, an independent firm of actuaries, using the latest full valuation of the scheme as at 31 March 2010. The figures involved are estimated based on a high degree of subjectivity. Small changes in the assumptions used can have a material impact on the financial statements.

Group accounts

The Council has entered into two joint ventures and may need to include group accounts for them.

In 2010/11 the Council undertook an assessment of whether the joint ventures had a material effect on the Council's financial position as presented in the accounts and concluded that they did not. This meant there was no requirement to produce group accounts.

The Council needs to consider if the assessment is still valid for 2011/12.

Finding

The Council updated its review of whether group accounts need to be prepared. As in previous years, officers concluded group accounts were not required for 2011/12 on the grounds of materiality. I completed a review of the Council's consideration of group entities and their materiality to the Council. I am satisfied group accounts do not need to be prepared.

Significant weaknesses in internal control

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

I have tested the controls of the Authority only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. I have reviewed the Annual Governance Statement and can confirm that:

- it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- it is consistent with other information that I am aware of from my audit of the financial statements.

I have identified no weaknesses in internal control that I wish to bring to your attention.

Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Authority's financial reporting process including the following.

- Qualitative aspects of your accounting practices.
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions.
- Other audit matters of governance interest.

I have no matters I wish to report.

Whole of Government Accounts

My work on your Whole of Government Accounts return is underway and I expect to report to the National Audit Office by 30 September. The extent of my review and the nature of my report are specified by the National Audit Office. On the basis of the work completed so far, I have no matters to report to you. However, if any such matters come to my attention as I complete the outstanding work, I will provide a verbal update to the Committee.

Value for money

I am required to conclude whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is the value for money conclusion.

I assess your arrangements against the two criteria specified by the Commission. I have set out below my conclusion on the two criteria.

I intend to issue an unqualified conclusion stating that the Authority has proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. I include my draft conclusion in appendix 1.

Table 2: **Value for money conclusion criteria and my findings**

Criteria	Findings
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2011/12:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>The Council has processes in place to manage financial risks and opportunities.</p> <p>A balanced budget has been set for 2012/13. The medium term financial strategy has also been updated for the period 2013 to 2016 and reported to members. This sets out the impact that future changes to government funding may have on the financial position of the Council, and includes the assumptions made in forecasting future income and expenditure.</p> <p>The Council has delivered an underspend against the budget set for 2011/12 and is currently projecting an underspend in respect of the 2012/13 budget. The financial position is reported to members on a regular basis. These reports include a detailed projection of the likely outturn position.</p>

Criteria

2. Securing economy, efficiency and effectiveness

The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Focus for 2011/12:

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Findings

The Council has proper arrangements for securing economy, efficiency and effectiveness.

The budget setting process has prioritised the areas of services which are considered most important by the Council. The Council has taken account of the outcomes from its consultation exercises in preparing the budget and the updated medium term financial strategy.

Reporting against the achievements of the Council's strategic plan has continued through the year, with good performance being maintained against key objectives.

There are longer term savings likely to be required are set out in the medium term financial strategy. The strategy also sets out the planned use of reserves over the period. A significant amount of these savings will need to be identified and delivered to ensure that the Council continues to meet its budget.

Pendle Borough Council works in partnership with other authorities and organisations to deliver services. This includes the legal partnership with Burnley Borough Council and the partnership with Hyndburn Borough Council for planning charges. The Council also works in collaboration with Lancashire County Council to provide communities with access to advice on Benefits, welfare rights and council services. These arrangements help the Council manage costs without impacting on service delivery. The Council continues to use PEARL, a joint venture with the private sector, to drive the redevelopment of the area.

Fees

I reported my planned audit fee in the January Audit Plan.

I will complete the audit within the planned fee.

	Planned fee 2011/12 (£)	Expected fee 2011/12 (£)
Audit	£88,789*	£88,789*
Claims and returns	£33,000 (estimated)	£33,000 (estimated)
Non-audit work	£0	£0
Total	£121,789	£121,789

*The Audit Commission has paid a rebate of £7,103 to reflect attaining internal efficiency savings, reducing the net amount payable to the Audit Commission to £81,686.

Appendix 1 – Draft independent auditor’s report

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF PENDLE BOROUGH COUNCIL

Opinion on the Authority financial statements

I have audited the financial statements of Pendle Borough Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Pendle Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of the Chief Financial Officer’s Responsibilities, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword and the annual report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the financial position of Pendle Borough Council as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information given in the explanatory foreword and the content of the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects.

Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself 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 2012.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, Pendle Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

Certificate

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

Karen Murray
District Auditor

Audit Commission
2nd Floor,
Aspinall House,
Aspinall Close,
Middlebrook,
Horwich,
Bolton, BL6 6QQ

September 2012

Appendix 2 – Corrected errors

I identified the following errors during the audit which management have addressed in the revised financial statements.

		Statement of comprehensive income and expenditure		Balance sheet	
Item of account	Nature of error	Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
Heritage Assets	The Council was required to include heritage assets separately in the balance sheet at cost or valuation for the first time this year. Civic regalia has been included at the insurance valuation. However, the value in the statement of accounts did not agree to supporting valuation information. This has now been amended for the balance sheet at 1 April 2010, 31 March 2011 and 31 March 2012.			211	211
CIES	The Council incurs expenditure classified as Revenue Expenditure Funded from Capital under Statute (REFCUS) and allocated this to services. However, the matching funding had been included below the net cost of services line, in taxation and none specific grant income. The funding should have been included within services. This has now been amended in the statement of accounts for the current year and 2010/11. There has been no impact on the total Comprehensive Income and Expenditure.	1,397 (2,928 for 2010/11)	1,397 (2,928 for 2010/11)		

Statement of comprehensive
income and expenditure

Balance sheet

Financial Instruments Note 14 financial instruments originally did not comply with the requirements of the Code. The following amendments have been made. There were some bank accounts not originally included in the investments section. The debtors and creditors disclosures originally included items which were due to or from the Council under statute, such as those relating to Council Tax, where only those due under contract should be included.

Investments – Loans and receivables at amortised cost

1,145 (404 for 2010/11)

Some of the bank accounts held by the Council had not been included in the note. These have now been included.

Debtors – financial assets carried at contract amounts

1,250 (4251 for 2010/11)

The disclosure has been revised to exclude those balances due to the Council under statute rather than under contract.

Creditors financial liabilities at amortised cost.

1122 (1881 for 2010/11)

The disclosure has been revised to exclude those balances due from the Council under statute rather than under contract.

Appendix 3 – Draft letter of management representation

Pendle Borough Council – Audit for the year ended 31 March 2012

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors of Pendle Borough Council, the following representations given to you in connection with your audit of the Authority's financial statements for the year ended 31 March 2012.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Authority, for the completeness of the information provided to you, and for making accurate representations to you.

Uncorrected misstatements

The effects of uncorrected financial statements misstatements summarised in the attached schedule are not material to the financial statements, either individually or in aggregate.

Supporting records

I have made available all relevant information and access to persons within the Authority for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Authority.

Internal control

I have communicated to you all deficiencies in internal control of which I am aware.

Irregularities

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Authority has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

Related party transactions

I confirm that I have disclosed the identity of the Authority's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the Code.

Subsequent events

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

Signed on behalf of Pendle Borough Council

I confirm that the this letter has been discussed and agreed by the Accounts and Audit Committee on 26 September 2012

Signed

Name

Position

Date

Appendix 4 – Glossary

Annual Audit Letter

Letter issued by the auditor to the Authority after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion and conclusion.

Annual Governance Statement

The annual report on the Authority's systems of internal control that supports the achievement of the Authority's policies aims and objectives.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Group accounts

Consolidated financial statements of an Authority and its subsidiaries, associates and jointly controlled entities.

Internal control

The whole system of controls, financial and otherwise, that the Authority establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

Significance

The concept of ‘significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the financial statements. Significance has both qualitative and quantitative aspects.

Those charged with governance

Those entrusted with the supervision, control and direction of the Authority. This term includes the members of the Authority and its Audit Committee.

Whole of Government Accounts

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Authority must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its financial statements.

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

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The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

