

The Annual Audit Letter for Pendle Borough Council

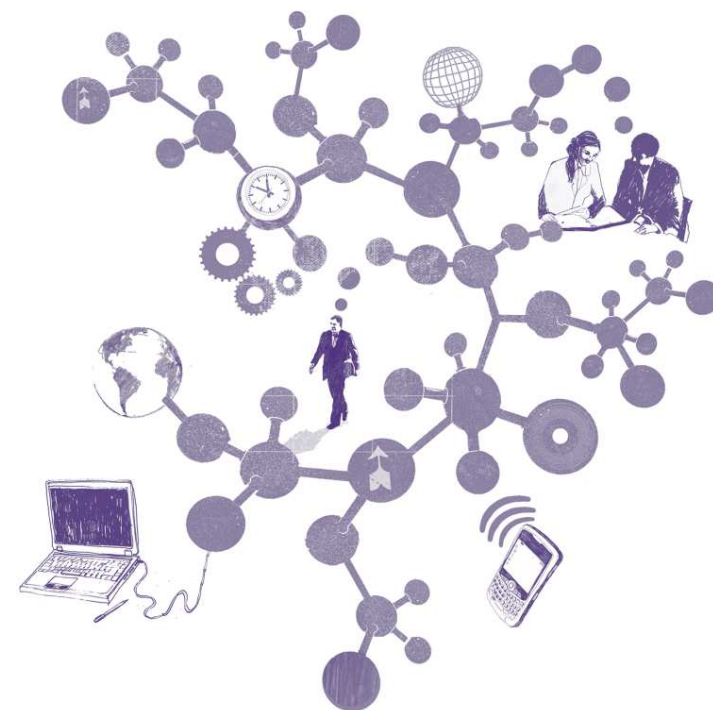
Year ended 31 March 2016

October 2016

Karen Murray
Engagement Lead
T 0161 234 6364
E karen.murray@uk.gt.com

Neil Krajewski
Engagement Manager
T 0161 234 6371
E neil.p.krajewski@uk.gt.com

Sarah Bafarea
In-Charge Auditor
T 0161 953 6340
E sarah.bafarea@uk.gt.com



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Executive summary

Purpose of this letter

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 2016.

This Letter is intended to provide a commentary on the results of our work to the Council and its 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 (the Code) 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 28th July 2016.

Our 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); and
- 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 and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 2 August 2016.

Value for money conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016. We reflected this in our audit opinion on 2 August 2016.

Executive summary

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 2016. We will report the results of this work to the Accounts and Audit Committee in our Annual Certification Letter.

Working with the Council

Early Closure of the Accounts

Working in partnership with the Council's finance team, we were able to bring forward the closure of the audit by eight weeks compared with previous years. This is important because from 2018 changes in regulation mean that the Council will need to issue its accounts for audit by 31 May and the audit will need to be concluded by 31 July. The early closure of this year's audit indicates the Council has made good progress towards putting in place the arrangements needed to adhere to the new timetable.

High Quality Financial Statements

We were pleased to note that compressing the timetable for the production of the financial statements did not result in a deterioration in the quality of the financial statements or an increase in the number of adjustments required as a result of the audit process. Management continue to produce high quality financial statements which adhere to the requirements of the CIPFA Code of Practice on Local Authority Accounting.

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
October 2016

Audit of the accounts

Our audit approach

Materiality

In our audit of the Council's accounts, 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 our audit of the Council's accounts to be £1,108,000, which is 2% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality for certain areas such as cash, senior officer remuneration and related party transaction disclosures.

We set a lower threshold of £55,400, 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 enough 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 Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- 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 narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts on which we give our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe 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.

Audit of the accounts

These are the 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
<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>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>Having considered the risk factors set out in ISA 240 and the nature of the revenue streams at Pendle Borough Council, we determined at the planning stage of our audit that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Pendle Borough Council, mean that all forms of fraud are seen as unacceptable. <p>We did not identify any issues to report.</p>
<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> • reviewed and walked through the controls implemented by management in relation to the posting of journal entries; • reviewed the accounting estimates, judgments and decisions made by management; • tested the journal entries; and • reviewed the unusual significant transactions. <p>We did not identify any issues to report.</p>
<p>Valuation of property plant and equipment</p> <p>The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from current value. This represents a significant estimate by management in the financial statements.</p> <p>The Council revalues these assets on a five year rolling basis.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • reviewed management's processes and assumptions for the calculation of the estimate; • reviewed the competence, expertise and objectivity of any management experts used; • reviewed the instructions issued to valuation experts and the scope of their work; • tested the revaluations made during the year to ensure they are input correctly into the Council's asset register; • discussed with the valuer about the basis on which the valuation is carried out and challenge of the key assumptions; and • reviewed and challenged of the information used by the valuer to ensure it is robust and consistent with our understanding. <p>We agreed a minor change to the accounts to enhance disclosures relating to assets held at fair value in accordance with the provisions of IFRS 13.</p>

Audit of the accounts

Risks identified in our audit plan	How we responded to the risk
<p>Valuation of pension fund net liability The Council's pension fund asset and liability, as reflected in its balance sheet, represents a significant estimate in the financial statements. The values of the pension fund net liability is estimated by specialist actuaries.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • reviewed the management processes to ensure the data supplied to the Lancashire Pension Fund is accurate and complete; • liaised with the auditor of the Lancashire Pension Fund to understand the controls in place to ensure the data supplied to the actuary is accurate and complete; • compared the estimates used by the actuary to produce the valuation with actuals available to the Council and the Pension fund after the year-end; • undertook procedures to understand and assess the assumptions and techniques used by the actuary to estimate the value of the pension fund liability; and • we will review the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. <p>We did not identify any issues to report.</p>
<p>Employee remuneration Employee remuneration accruals understated (Remuneration expenses not correct)</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> • reviewed the systems and controls that the Council has in place to ensure that its employees are paid the correct amount based on hours worked and their contractual entitlement, including arrangements to accrue for amounts outstanding but not yet paid at the year-end. This included consideration of the Council's contract with Liberata, its outsourced payroll provider; • we have walked-through the controls the Authority has in place in relation to this risk; • sample testing of payroll transactions; • analytical procedures to identify any discrepancies in monthly payrolls and consideration as to whether payroll expenditure is in line with our expectations based on supporting evidence; and • testing of the reconciliation between the payroll system and the amounts recorded in the financial statements. <p>We did not identify any issues to report.</p>
<p>Operating expenses Creditors understated or not recorded in the correct period (Operating expenses understated)</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • reviewed the systems and controls that the Council have in place to pay and record expenditure incurred; • we have walked-through controls relevant to the risk identified; • substantive testing of a sample of expenditure transactions; • reviewed the management's processes to raise accruals and ensure accruals recognised are materially complete; • substantive testing of a sample of creditor balances and accruals recognised in the year-end balance sheet; and • tested a sample of payments made in April and May 2016 to confirm that expenditure has been accounted for in the correct financial year. <p>We did not identify any issues to report.</p>

Executive summary

Audit opinion

We gave an unqualified opinion on the Council's accounts on 2 August 2016, in advance of the 30 September 2016 national deadline.

The Council made the accounts available for audit in line with the agreed timetable, 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 of the accounts of the Council to the Council's Accounts and Audit Committee on 28 July 2016. Management agreed to adjust the accounts to correct the four errors which came to light during our audit.

We also reported to the Accounts and Audit Committee that Management had agreed to revisit the basis on which they produced Note 24. This note provides a reconciliation between the primary financial statements and reports produced by the Council during the year to monitor income and expenditure against directorate budgets.

Annual Governance Statement and Narrative Report

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

Both documents were consistent with the supporting evidence provided by the Council and with our knowledge of the Council. CIPFA introduced a requirement for local government bodies to produce a narrative report this year. This report replaces the explanatory foreword and the intention is that the narrative report provides a broader, strategically-focussed commentary on the Council's financial position and its financial and non-financial performance than was the case previously. Management included the majority of the content recommended by CIPFA in its narrative report but have agreed to consider incorporating a summary of information relevant to an understanding of the Council's non-financial performance next year.

Other statutory duties

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 received in relation to the accounts. We are pleased to confirm that we did not have cause to exercise these powers this year.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2015 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. The key risks we identified and the work we performed are set out in table 2 overleaf.

As part of our Audit Findings report agreed with the Council in July 2016, we agreed that the evidence provided sufficient assurance that the assumptions made were reasonable and sufficiently prudent.

Overall VfM 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 2016.

Value for Money conclusion

Table 2: Value for money risks

Risk identified	Work to be carried out	Findings and conclusions
<p>Medium Term Financial Plan (MTFP) In our 2014-15 Audit Findings Report we noted that the Council had completed detailed work to identify the savings schemes that will be needed if the Council is to deliver its MTFP.</p> <p>Following the recent local government finance settlement, it is clear the Council will continue to be subject to significant reductions in central government funding.</p> <p>The current medium term financial plan, including the recently approved 2016-17 budget, needs to be underpinned by robust and realistic assumptions with adequate provision for contingencies if the Council is to continue to deliver a balanced budget.</p>	<p>Review of the medium term financial plan through discussion with key officers with a particular focus on the feasibility of the proposed savings.</p>	<p>The Council continues to forecast that it will face significant financial challenges in the period to 2019/20. The latest update to the Medium Term Financial Strategy predicts a 'Fiscal Gap' of £5.91M in 2019/20 if no corrective action is taken.</p> <p>In June 2015 management projected that, after taking account of proposed contributions from budget reserves, there was a shortfall of £1.47M which would need to be addressed from either cost reductions, increased income or additional use of reserves above the £1.35M built into the plan. The budget approved in February 2016 included savings of £837,000 and a contribution of £2.27M from reserves.</p> <p>The Council has established a Budget Working Group where senior members are represented. This facilitates regular discussion of the Council's latest financial position and the exchange of ideas as to how savings could be achieved. Consequently, in October 2015, four months before the approval of the budget, the Council had agreed £303k of the total savings required.</p> <p>Our review of the savings included the 2016/17 budget confirmed that a significant proportion of the savings schemes had already been achieved. Savings implemented included agreed reductions in payments to the Leisure Trust, Liberata and the Town and Parish Councils or reductions in the establishment.</p> <p>We considered the assumptions underpinning the latest medium financial strategy with a particular focus on the modelling of future income and expenditure. The evidence provided sufficient assurance that the assumptions made were reasonable and sufficiently prudent.</p> <p>Work is already underway to identify how savings will be realised in 2017/18 and more details were due to be considered at a meeting of the Budget Working Group in August 2016. A recent review of reserves has provided some clarity about the extent to which reserve balances can be used to balance the budget over the life of the financial strategy.</p>

Working with the Council

Our work with you in 2015/16

We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship. Together, we have delivered some great outcomes.

An efficient audit – we provided the opinion on 2 August 2016, eight weeks before the deadline and in line with the timescale we agreed with you. Our audit team are knowledgeable and experienced in your financial accounts and systems. Our relationship with your team provides you with a financial statements audit that continues to finish ahead of schedule releasing your finance team for other important work.

Improved financial processes – during the year we reviewed your financial systems and processes including employee remuneration, non- pay expenditure and property plant and equipment.

Understanding your operational health – through the value for money conclusion we provided you with assurance on your medium-term financial strategy and the process in place to identify the savings which will be required to cope with expected reductions in central government grant.

Sharing our insight – we provided regular updates to the Accounts and Audit Committee covering best practice. Areas we covered included:
Innovation in public financial management;
Knowing the Ropes – Audit Committee Effectiveness Review;
Making devolution work; and
Reforging local government

We have also shared with you our insights on advanced closure of local authority accounts, in our publication "Transforming the financial reporting of local authority accounts" and will continue to work with you to support the implementation of the streamlined audit timetable.

Providing training – we provided your teams with training on financial accounts and annual reporting. The courses were attended by senior members of the finance team.

Looking ahead to 2016/17

We will continue to liaise closely with the senior finance team during 2016/17. Arrangements have been made to commence our risk assessment and interim audit procedures later this year as part of our commitment to an efficient audit. We will continue to share examples of best practice relevant to the Council as the Council continues to look at how it can further reduce expenditure and increase income.

Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Fees

	Planned £	Actual fees £	2014/15 fees £
Statutory audit of Council	40,630	40,630	54,173
Grant Certification (Housing Benefit Subsidy)	7,946	7,946	13,840
Total fees (excluding VAT)	48,616	48,616	68,013

The 2015/16 fee reduced compared to the prior year as a result of a reduction in the scale fee announced by Public Sector Audit Appointments Ltd. This followed a national procurement exercise and the reduction was applied across the sector.

Reports issued

Report	Date issued
Audit Plan	11 March 2016
Audit Findings Report	19 July 2016
Annual Audit Letter	4 October 2016



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