

The Audit Findings for Pendle Borough Council

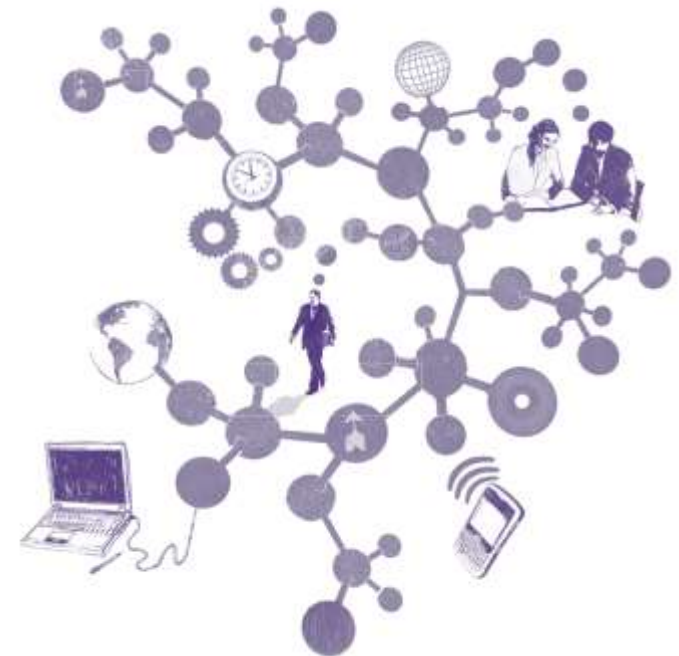
Year ended 31 March 2017

July 2017

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Pendle Borough Council
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31 July 2017

Dear Sirs,

Audit Findings for Pendle Borough Council for the year ended 31 March 2017

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of Pendle Borough Council, the Accounts and Audit Committee), to oversee the financial reporting process, as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with the Financial Services Manager.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland) ('ISA (UK&I)'), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours sincerely

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Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Value for Money

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Purpose of this report

This report highlights the key issues affecting the results of Pendle Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

We are also required to consider other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report, whether it is consistent with the financial statements, apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Council acquired in the course of performing our audit; or otherwise misleading.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion'). Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);

- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act).

We can confirm we have not exercised our additional powers. We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act. There are no issues arising from our responsibilities under these sections of the legislation.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan which we presented to the Accounts and Audit Committee at its meeting on 21 March 2017.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- tracing the basis of the Council's provision for NNDR appeals back to source data provided by Analyse Local, the expert used by management;
- receiving third-party confirmations in relation the value of investments held by the Council at the year-end;
- review of the final version of the financial statements;
- obtaining and reviewing the management letter of representation;
- review of final version of the Annual Governance Statement;
- updating our post balance sheet events review, to the date of signing the opinion; and
- completion of mandated procedures in respect of Whole of Government Accounts.

We received draft financial statements and accompanying working papers at the commencement of our work. The Council finalised its accounts on 31 May 2017. This was a month ahead of the statutory deadline and in line with the statutory deadline for 2017/18 which demonstrates the Council has made excellent progress to make arrangements to adhere to the revised audit timetable which is effective for next year in accordance with the relevant legislation.

Key audit and financial reporting issues

Financial statements opinion

We have identified one error impacting on the Council's reported financial position (details are recorded in section two of this report). On the grounds of immateriality, management have elected not to adjust for this error. Had this error been amended for, recorded net expenditure would have changed from £8,036K in the draft financial statements to £7,687K in the amended financial statements. We have made three recommendations for the Council to consider in relation to the production of the 2017-18 financial statements.

The key messages arising from our audit of the Council's financial statements are:

- the finance team continue to produce high-quality draft accounts that are supported by excellent comprehensive working papers.

Further details are set out in section two of this report.

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B).

Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes if the AGS and Narrative Report is misleading or inconsistent with the information of which we are aware from our audit.

Based on our review of the Council's Narrative Report and AGS we are satisfied that they are consistent with the audited financial statements. We are also satisfied that the AGS meets the requirements set out in the CIPFA/SOLACE guidance and that the disclosures included in the Narrative Report are in line with the requirements of the CIPFA Code of Practice.

Controls

Roles and responsibilities

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

Findings

Our work has not identified any control weaknesses which we wish to highlight for your attention.

Further details are provided within section two of this report.

Value for Money

Based on our review, we are satisfied that, in all significant respects, the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Further details of our work on Value for Money are set out in section three of this report.

Other statutory powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

Grant certification

In addition to our responsibilities under the Code, we are required to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. At present our work on this claim is in progress and is not due to be finalised until November 2017. We will report the outcome of this certification work through a separate report to Accounts and Audit Committee.

The way forward

Matters arising from the financial statements audit and our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Financial Services Manager.

We have made three recommendations, which are set out in the action plan at Appendix A. Recommendations have been discussed and agreed with the Financial Services Manager and the finance team.

Acknowledgement

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
July 2017

Section 2: Audit findings

01. Executive summary

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Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £1,073k (being 2% of gross revenue expenditure in the audited accounts for 2015/16). We have considered whether this level remained appropriate, taking account of our review of the draft financial statements and other matters arising during the course of the audit and have made no changes to our overall materiality.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £53,631. This remains the same as reported in our audit plan.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate. These remain the same as reported in our audit plan.

Balance/transaction/disclosure	Explanation	Materiality level
Related Party Transaction Disclosures	The Council conducts its business using public funds. The Related Party disclosures ensures that the Council discloses in full any transactions that have occurred with related parties. This ensures that the Council is open about who it does business with and counters any allegations or suspicion of nepotism on the part of management, members or those charged with governance.	£20,000
Disclosures of senior manager salaries and allowances in the remuneration report	Due to public interest in these disclosures and the statutory requirement for them to be made.	£5,000

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

Audit findings against significant risks

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<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 ISA240 and the nature of the revenue streams at Council, we have determined 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>Our audit work has not identified any issues in respect of revenue recognition.</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>We completed the following procedures to address the risk identified:</p> <ul style="list-style-type: none"> • review of entity controls • review of journal entry process and selection of unusual journal entries for testing back to supporting documentation; • review of accounting estimates, judgements and decisions made by management; and • review of unusual significant transactions. 	<p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK&I) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p>Valuation of property, plant and equipment</p> <p>The Council undertakes a rolling programme of revaluations of land and buildings. The approach taken to determine the carrying value of Property, Plant and Equipment in the Balance Sheet represents a significant estimate by management in the financial statements.</p>	<p>We have undertaken the following work:</p> <ul style="list-style-type: none"> • identification of the controls put in place by management to ensure the carrying value of property, plant and equipment is not materially different from fair value at year end and undertaken an assessment of whether these controls are implemented as expected and are sufficient to mitigate the risk of material misstatement; • 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, on a judgmental basis, the accuracy of valuations recorded in the Asset Register by tracing the valuations in the asset register back to reports received from the valuer; • discussed with the valuer the basis on which the valuation is carried out and challenged the key assumptions; • reviewed and challenged the information used by the valuer to inform their valuations to ensure it is robust and consistent with our understanding; and • evaluated the assumptions made by management for those assets not revalued during the year and assessed how management has satisfied themselves these are not materially different to carrying value. 	<p>We have not identified any matters to report in relation to this risk</p>
<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 have undertaken the following work:</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; • undertaken procedures to understand and assess the assumptions and techniques used by the actuary to estimate the value of the pension fund liability; and • reviewed the consistency of the pension fund asset and liability and associated disclosures in notes to the financial statements with the actuarial report from your actuary. 	<p>We have not identified any matters to report in relation to this risk</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.

Transaction cycle and Risk	Description of risk	Work completed	Assurance gained & issues arising
<p>Operating expenses/ creditors</p> <p><i>- Creditors are understated or not recorded in correct period</i></p> <p>(Completeness Assertion)</p>	<p>Management uses judgement to estimate accruals of un-invoiced non-pay costs.</p> <p>We identified the completeness of non- pay expenditure in the financial statements as a risk requiring particular audit attention.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle undertaken a walkthrough of the key controls to assess the whether those controls were in line with our documented understanding tested a sample of payments made in April 2017 to confirm the associated expenditure was recognised in the correct financial year 	<p>We identified one payment made in April 2017 which had been accrued for in 2016-17 on the basis it related to a liability existing at 31 March 2017. However, a proportion of the amount paid should have been recognised in the 2017-18 financial year.</p> <p>We are satisfied the impact of the error is not material. We understand that the finance team processed the accrual based on information known to them at the point of closing the accounts. To prevent recurrence of this issue in future years, the finance team should remind budget holders of the importance of providing sufficient information to the finance team to ensure transactions are coded to the correct financial year.</p>
<p>Employee remuneration</p> <p><i>-Employee remuneration costs are understated</i></p> <p>(Completeness Assertion)</p>	<p>Payroll expenditure represents a significant percentage of the Council's gross expenditure.</p> <p>We identified the completeness of payroll expenditure in the financial statements as a risk requiring particular audit attention.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle undertaken a walkthrough of the key controls to assess the whether those controls were in line with our documented understanding reconciled payroll expenditure recorded in the Council's general ledger to amounts record in the payroll system completed a trend analysis of monthly payroll expenditure in sufficient detail to assure ourselves that payroll expenditure is not materially misstated 	<p>We have not identified any matters to report in relation to this risk</p>

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)


New issues and risks identified during the course of the audit

This section provides commentary on new issues and risks which were identified during the course of the audit and were not previously communicated in the Audit Plan




	Issue	Commentary
1.	<p>Brierfield Mill</p> <p>In order to facilitate the continued regeneration of Brierfield Mill, in April 2016 the Council decided to terminate a lease between itself and PEARL Brierfield Mill Ltd and the Council's freehold interest in Brierfield Mill transferred to PEARL Brierfield Mill Ltd.</p> <p>This was a one-off transaction and the associated accounting was complex in nature requiring management to make judgments about how to reflect the impact of the Council's decision in the financial statements.</p>	<p>We held discussions with officers regarding this transaction. The Council has drawn upon expertise provided by its valuation expert, Liberata who have provided the Council and ourselves with a detailed explanation of the approach taken to value the asset the Council transferred to PEARL Brierfield Mill Ltd.</p> <p>We have concluded that the Council transferred its substantive interest in Brierfield Mill as a result of a decision taken in 2012 when the Council agreed to lease the site under the terms of a 250-year lease. In September 2016 the Council terminated that lease.</p> <p>The Council has recognised an impairment reflecting the income foregone as a result of the termination. The asset the Council transferred to PEARL Brierfield Mill Ltd was solely the freehold interest in the site which would have reverted to the Council at the end of the 250-year lease. We are satisfied that the valuer's assessment that the value of this interest was trivial at £35,000 is reasonable.</p>
2.	<p>Implementing the 'Telling the Story' requirements introduced in the 2016/17 CIPFA Accounting Code of Practice</p> <p>All local authorities were required to present their comprehensive income and expenditure using headings reflecting how they reported their in-year financial performance to the Authority's Chief Operating Decision Maker.</p> <p>For Pendle Borough Council, the Executive Committee fulfil the role of the Chief Operating Decision Maker.</p> <p>The new format of the comprehensive income and expenditure statement replaces the previous approach whereby all local authorities used the same headings as set out in CIPFA's Service Reporting Code of Practice. A prior year restatement was required to ensure prior year comparators were restated on the same basis as this year's figures.</p>	<p>Management completed an exercise to restate the prior year information in advance of preparing the Council's draft financial statements. The Council reports in-year financial performance using eleven headings reflecting the Council's seven Directorates, together with four headings reflecting the services provided by the Council's outsourcing partner, Liberata.</p> <p>The Council has used these headings to produce its comprehensive income and expenditure statement. Management acknowledge that since some headings account for less than ten per cent of total income or expenditure, CIPFA guidance allows headings to be aggregated. Management have agreed to consider the scope for aggregation when it prepares the 2017/18 financial statements. We have agreed that reducing the number of separate headings could make the statements more accessible for users of the accounts.</p> <p>Management provided detailed working papers to support the analysis of income and expenditure. We have discussed and agreed with management the scope to make improvements to the way in which financial information is held in the ledger to help simplify the process needed to produce the comprehensive income and expenditure account and supporting working papers for the statement of accounts.</p>

Accounting policies, estimates and judgements



In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<p>Revenue recognition</p>	<p>The Council's income recognition policy reflects that activity is accounted for in the year it takes place, not simply when cash payments are made. In respect of revenue the Council's accounting policies state that:</p> <ul style="list-style-type: none"> • Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council • Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council • Revenue pertaining to the Collection Fund (i.e Business Rates and Council Tax) is accrued for based on the Council's percentage share of the total precepts for the year. This was 40% for business rates and 14% for Council Tax. 	<p>The Council's accounting policy is in line with the requirements of CIPFA code and is adequately disclosed in the accounts.</p>	<p style="text-align: center;">  Green </p>




Assessment

-  [Green] Accounting policy appropriate and disclosures sufficient
-  [Amber] Accounting policy appropriate but scope for improved disclosure
-  [Red] Marginal accounting policy which could potentially attract attention from regulators

Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
<p>Judgements and estimates</p>	<ul style="list-style-type: none"> • Key estimates and judgements include: <ul style="list-style-type: none"> – Useful life of PPE – Revaluations of PPE – Impairments of PPE – Accruals – Valuation of pension fund net liability – Provision for NNDR appeals – Group Accounts 	<p>We have considered the Council's arrangements in each of these areas. We are satisfied the judgments made by management were appropriately supported and, where estimates had been used, a robust process had been adopted to arrive at the estimate. Our detailed work on the estimates for the pension liability and the valuation of PPE are set out on page 11.</p> <p>We have reviewed the basis on which the Council has determined it does not need to produce group accounts. Having reviewed the recently-produced financial statements for the PEARL entities, we are satisfied that Group Accounts are not required.</p> <p>The Council has a material provision reflecting its assessment of its exposure to business rate appeals. This is based on appeals submitted to the Valuation Office Agency at 31 March 2017 by businesses within the Borough. The Council engages a specialist company to model how much should be provided for based on the appeals submitted.</p>	<p style="text-align: center;"> Green</p>
<p>Going concern</p>	<p>The Financial Services Manager has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continue to adopt the going concern basis in preparing the financial statements.</p>	<p>We have reviewed the Council's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2016/17 financial statements.</p>	<p style="text-align: center;"> Green</p>

Assessment

-  [Green] Accounting policy appropriate and disclosures sufficient
-  [Amber] Accounting policy appropriate but scope for improved disclosure
-  [Red] Marginal accounting policy which could potentially attract attention from regulators

Other communication requirements

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

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Accounts and Audit Committee. We have not been made aware of any significant incidents in the period. No other issues have been identified during the course of our audit procedures.
2.	Matters in relation to related parties	<ul style="list-style-type: none"> From the work we carried out, we have not identified any related party transactions which have not been disclosed.
3.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations. We have not identified any incidences from our audit work.
4.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Council. The letter is included as an item on the agenda for this evening's meeting.
5.	Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send confirmation requests to counterparties in respect of our work on the Council's long-term debtor, investment and cash at bank balances. This permission was granted and the requests were sent. At the time of preparing this report, we are currently awaiting a small number of confirmations relating to investment balances.
6.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements.

Other communication requirements continued

	Issue	Commentary
7.	Matters on which we report by exception	<ul style="list-style-type: none"> • We are required to report on a number of matters by exception in a number of areas: <p>We have not identified any issues we would be required to report by exception in the following areas:</p> <ul style="list-style-type: none"> • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit • The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Council acquired in the course of performing our audit, or otherwise misleading.
8.	Specified procedures for Whole of Government Accounts	<p>HM Treasury has set a threshold, based on entries in the financial statements, which determines the extent of audit procedures appointed auditors are required to undertake in respect of the Whole of Government accounts return.</p> <p>The Council continues to be below this threshold so we are only required to complete limited procedures.</p> <p>These procedures will be completed before we issue our audit certificate.</p>

Internal controls

The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

We identified one deficiency relating to the arrangements for updating the asset register to take account of disposals occurring in the year. Details are set out on page 20 and an associated recommendation is included in the Action Plan. We confirm that, in all other respects, controls were found to be operating effectively and we have no matters to report to the Accounts and Audit Committee.

"The purpose of an audit is for the auditor to express an opinion on the financial statements.

Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK&I) 265)

Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	✓	Record the date of authorisation when journals are approved for posting as part of month-end procedures	Our testing of journals this year confirm that the date of authorisation had been recorded as part of month-end procedures.

Assessment

- ✓ Action completed
- X Not yet addressed

Adjusted misstatements

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. We confirm that there are no non-trivial adjusted misstatements.

Unadjusted misstatements

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

Detail	Comprehensive Income and Expenditure Statement	Balance Sheet	Reason for not adjusting
1 The financial statements accounted for the disposal of two Council assets where the disposal had not taken place during the 2016-17 financial year	Other Operating Expenditure – Loss on Disposal overstated by £349,000	Property, Plant and Equipment understated by £349,000	Immaterial to the financial statements – a decision was taken in-year to approve the disposal but ultimately the transaction did not complete prior to the end of the 2016-17 financial year.
Overall impact	£349,000	£349,000	

Misclassifications and disclosure changes

We have agreed a small number of changes to the Narrative Statement, Annual Governance Statement and disclosures in the financial statements. These changes reflect presentational improvements to assist readers with interpretation of information reported as part of the financial statements. All of the changes made have a trivial impact on amounts disclosed in notes to the financial statements.

Section 3: Value for Money

01. Executive summary

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05. Communication of audit matters

Background

We are required by section 21 of the Local Audit and Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') to satisfy ourselves that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2016. AGN 03 identifies one single criterion for auditors to evaluate:

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

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

Risk assessment

We carried out an initial risk assessment in February 2017 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan which we presented to the Accounts and Audit Committee on 21 March 2017.

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

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

Significant qualitative aspects

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

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

- the information provided by management to Councillors to inform the decisions taken to deliver savings included in the 2017-18 budget with a particular focus on the decision taken to acquire No. 1 Market Street and a long leasehold interest in the ACE centre; and
- the assumptions made by management regarding the scope to deliver further savings in accordance with the savings targets set out in the Medium Term Financial Strategy

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work on pages 26 and 27.

Overall conclusion

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

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

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

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendation for improvement as follows.

Management's response to these can be found in the Action Plan at Appendix A.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment. We confirm no further risks were identified through our ongoing review of documents.

Significant risk	Work to address	Findings and conclusions
<p>Use of Prudential Borrowing to reduce recurrent expenditure</p> <p>The Council has developed plans to use its prudential borrowing powers to reduce revenue expenditure by acquiring property in the Borough. Historically, these properties have been leased to the Council or its partners for the provision of local services.</p> <p>Any additional borrowing adds to the Council's long term commitments.</p>	<p>Review of information provided to members in support of acquisition of No. 1 Market Street and the ACE Centre to confirm that estimates about the savings that can be delivered are robust and that appropriate scenario-planning has been completed to understand any 'downside' risks associated with these plans</p>	<p>The Council's medium-term financial strategy has four themes – growing, charging, saving and stopping. During this financial year the Council sought to use its comparatively low cost of borrowing to leverage savings in revenue expenditure. This reflects the Council's consideration of the findings of a peer review by the Local Government Association in December 2015 which recommended the Council take steps to explore the possibilities for undertaking prudential borrowing to generate a revenue return which could then be used to support service delivery.</p> <p>In line with this, the decisions taken by members to acquire a freehold interest in the ACE Centre and No. 1 Market Street has resulted in the Council incurring capital expenditure of £5.5M. The £5.5M comprises £3.3M relating to No. 1 Market Street and £2.2M relating to the ACE Centre. To date, the Council has borrowed £3M from the Public Works Loans Board to fund the acquisition of No.1 Market Street.</p> <p><u>Acquisition of leasehold interest in the ACE Centre</u></p> <p>The decision to acquire a leasehold interest in the ACE Centre was taken in August 2016 after the Council considered the cost savings that would be generated if a long-leasehold interest were to be acquired in those elements of the premises currently held under the terms of a long-term lease. The anticipated savings were £146,000 in 2017/18 and £100,000 in each subsequent year. We are satisfied that these calculations are reasonable.</p> <p>The newly-acquired premises are currently used by Pendle Leisure Trust for the provision of discretionary services to the Borough. Given ongoing reductions to local government funding, the Council and the Leisure Trust are likely to need to work together in the medium-term to review the viability of the services provided by the Leisure Trust using the ACE centre. However, it is important to note that prior to taking out the loan the Council had a long-term ongoing financial commitment in relation to the ACE centre as the lease did not expire until 2034 and had no break clauses. Therefore the Council would have continued to incur costs in relation to the ACE centre even if the long-leasehold interest had not been purchased. We have confirmed that the agreed purchase price for the premises acquired was consistent with a valuation obtained which was prepared on an appropriate basis.</p>

Significant risk	Work to address	Findings and conclusions (continued)
		<p><u>Acquisition of No. 1 Market Street</u></p> <p>In November 2016 the Council considered a report proposing that the Council acquire No. 1 Market Street in Nelson. The report detailed that the Council's outsourcing partner, Liberata, had put forward a proposal to extend the existing outsourcing contract to 2030. Liberata had indicated that the unitary charge could be reduced by an initial £300K for the next three years followed by a reduction of £400K for the following ten years. However, in order to realise these savings it was proposed the Council acquire No. 1 Market Street in order to help Liberata reduce its overheads. Liberata uses No. 1 Market Street to provide services not only to Pendle but also to other local authorities with which they have contracts.</p> <p>The proposal presented to members compared the offer of recurrent savings prepared by Liberata to the cost of borrowing which would need to be borne by the Council. It also takes account of the income flowing to the Council as a result of the Council taking a freehold interest in No. 1 Market Street on terms acceptable to Liberata. Liberata indicated that as part of any agreement to extend the contract Liberata would lease No. 1 Market Street until 2030. The estimated savings, incorporating the rental income to the Council and the reduction in the unitary charge, are around £450,000 per annum.</p> <p>As with the ACE centre, there is no specific consideration of the use of the building at the end of contract term but it should be noted that the facility acquired was only constructed in 2008 and management's assumption that it could be used to provide services after 2030 does not appear unreasonable. We understand management are in the processing of identifying a tenant who will occupy the space not currently required by Liberata.</p> <p>As part of the decision making, Members were reminded the Council was not obliged to extend the existing arrangement because they could bring the services back in-house. However, exiting the Liberata contract was also noted to potentially impact on the local economy as Liberata are a major provider of jobs in Nelson. We have considered the legal advice obtained by members regarding the legality of the contract extension and are satisfied that this did not present any risks not communicated to members. Similarly, the independent valuation obtained supports the proposed purchase price.</p> <p>We are satisfied that appropriate arrangements were in place to ensure proper arrangements were in place to facilitate inform decision-making for the two decisions referred to above.</p>

Significant risk	Work to address	Findings and conclusions (continued)
<p>Medium-Term Financial Plan</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 2017-2020.</p> <p>Initial plans have been developed to close this financial gap. .</p>	<p>Review of the latest medium term financial plan to confirm that it reflects an accurate assessment of the Council's financial position and consideration of the progress made by officers in developing plans to address that gap.</p> <p>Review of evidence that the Council has taken sufficient steps to ensure it has a realistic expectation that the savings required can be achieved.</p>	<p>The Council has continued to regularly update its medium term financial strategy during the 2016/17 financial year. Our review of the assumptions underpinning the financial strategy confirms officers continue to adopt a prudent approach, recognising the difficulty of securing additional income in the short-term from either growing the business rate base or securing additional new homes bonus funding. This is despite the Council's priorities relating to economic growth and regeneration. Assumptions regarding increasing costs over the financial period to 2020/21 also appear reasonable and reflect the latest information from central government.</p> <p>The targeted savings for the 2017/18 financial year was £1.726M. Management identified schemes which it expected to generate the full package of savings but ultimately political support was only secured for £1.4M of the schemes proposed. There is a recognition that some of the schemes which did not go ultimately go forward for 2017/18 may need to be revisited for future years. Identification of £1.4M savings for 2017/18 is a significant increase on the £837,000 of savings built into the 2016/17 budget. Management were once again successful in implementing a timetable whereby the majority of the savings proposed for the 2017/18 financial year had been agreed by December 2016.</p> <p>In spite of the savings secured as part of the 2017/18 budget, officers have identified a need to find a further £1.4M of savings in 2018/19 and a further £1.344M in 2019/20. These saving are required alongside the use of £1.9M from reserves in 2017/18, £1.3M in 2018/19 and £1.4M in 2019/20. Officers report that, based on current projections, the balance on the budget support strategy reserve will be exhausted in 2020/21 or sooner if the savings are not found in line with the targets set. These projections appear reasonable but rely on the Council maintaining its strong record of delivery of an annual outturn consistent with the original budget estimate.</p> <p>At the time of the Budget report to Council in February 2017, management had identified proposed areas of focus for savings in 2018/19 amounting to £974K of the targeted savings of £1.4M. The majority of these related to staffing changes (£250K), a review of waste services (£300K) and a reduction in the management fee paid to Pendle Leisure Trust (£150k). Whilst these were high level proposals at that time the Council is now starting to engage members in developing areas for savings. In particular, in June 2017 the Executive considered how the savings relating to waste services might be delivered. Ongoing uncertainty about what arrangements will replace the current County Council cost-sharing arrangements further complicate the position regarding the provision of waste services. Management have assumed the Council will lose the £760,000 per annum it receives under the current arrangement which expires in March 2018. The targeted savings of £300,000 take account of this. We understand there are ongoing discussions with Pendle Leisure Trust about changes they would need to make in order to cope with further reductions in the management fee received from the Council.</p> <p>We have concluded that, whilst there continue to be significant challenges impacting on the Council's medium-term financial position, adequate arrangements are in place to ensure the Council addresses its savings requirement and find ways to reduce recurrent net expenditure</p>

Significant difficulties in undertaking our work

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

Significant matters discussed with management

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

Any other matters

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

Section 4: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

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

Fees

	Proposed fee £	Final fee £
Council audit	40,630	40,630
Grant certification	7,986	10,380
Total audit fees (excluding VAT)	48,616	51,010

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA). The proposed fee for our certification work was revised by PSAA during the year.

Grant certification

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Independence and ethics

- We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and confirm that we are independent and are able to express an objective opinion on the financial statements.
- We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.
- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services. We have not identified any instances of staff providing other services to the Council.

Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Communication to those charged with governance

ISA (UK&I) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report, or emphasis of matter		✓
Unadjusted misstatements and material disclosure omissions		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓

Appendices

A. Action Plan

B. Audit Opinion

A. Action plan

Priority

Rec no.	Recommendation	Priority	Management response	Implementation date and responsibility
1	Ensure quality control checks completed in relation to capital accounting confirm expected asset disposals have completed prior to the year-end.	Medium	Accepted – checks will be applied in the preparation of the financial statements for 2017/18	30 April 2018, Financial Services Manager
2	Review the arrangements for producing the analysis of Net Cost of Services in the Comprehensive Income and Expenditure to streamline the process for preparing the statement	Low	Accepted – will review, assess and implement a more streamlined process in support of the financial statements for 2017/18.	31 May 2018, Financial Services Manager
3	Assess whether consolidating Directorate headings which relate to similar areas of spend in the analysis of Net Cost of Services would make the statements more accessible to users of the accounts	Low	Accepted – will review and apply consolidation where beneficial to do so.	31 May 2018, Financial Services Manager

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

B: Audit opinion

We anticipate we will provide the Council with an unmodified audit report

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

We have audited the financial statements of Pendle Borough Council (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement 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 2016/17.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Financial Services Manager and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Financial Services Manager 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 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") and International Standards on Auditing (UK and Ireland). Those standards require us 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 Financial Services Manager and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements present a true and fair view of the financial position of the Authority as at 31 March 2017 and of its expenditure and income for the year then ended; and the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

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

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

Respective responsibilities of the Authority and auditor

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

We are required under Section 20(1)(c) of the Act to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criteria as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, we are satisfied that in all significant respects the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Certificate

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



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