

The Audit Findings for Pendle Borough Council

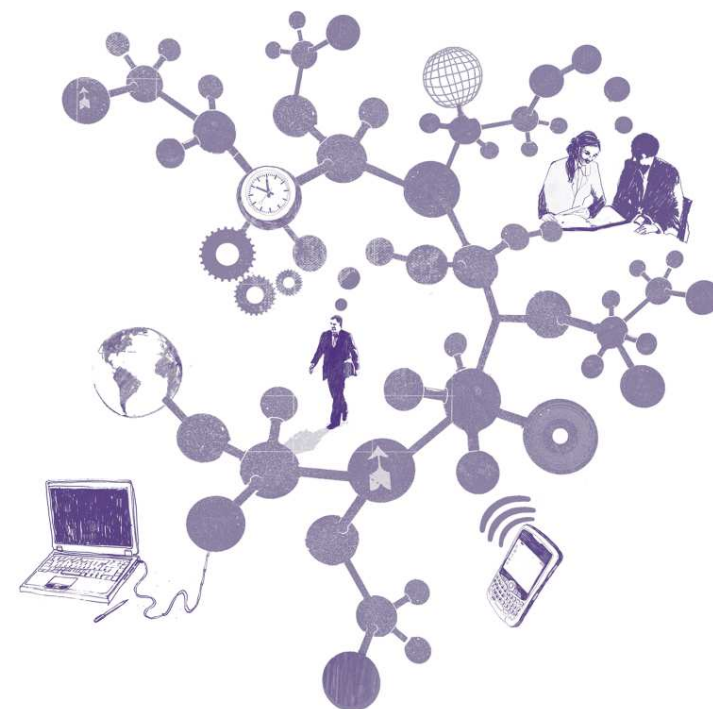
Year ended 31 March 2016

28 July 2016

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28 July 2016

Dear Members of the Accounts and Audit Committee

Audit Findings for Pendle Borough Council for the year ending 31 March 2016

This Audit Findings report highlights the key findings arising from the audit for the benefit of those charged with governance (in the case of Pendle Borough Council, the Accounts and Audit Committee), 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 officers.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), 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

Karen Murray

Chartered Accountants

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Contents

Section	Page
1. Executive summary	4
2. Audit findings	8
3. Value for Money	19
4. Other statutory powers and duties	24
5. Fees, non-audit services and independence	26
6. Communication of audit matters	28
Appendices	
A Action Plan	31
B Draft Opinion	32

Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

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 2016. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 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, whether it is consistent with the financial statements and in line with required guidance.

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 relevant period.

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 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.

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 and presented to the Accounts and Audit Committee on 22nd March.

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

- detailed testing of a sample of payments the Council made to housing benefits claimants;
- reviewing financial instruments and related party disclosures
- re-performance of the Council's reconciliation between payroll system reports provided by the Council's payroll provider and payroll expenditure recorded in the Council's general ledger;
- review of the signed financial statements for the Council's joint ventures to confirm consistency with assertions included in the Council's financial statements;
- obtaining and reviewing the management letter of representation;
- review of final versions of the Annual Governance Statement; and
- updating our post balance sheet events review, to the date of signing the opinion

We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable. Following early discussions with officers, the Financial Services Manager put in place arrangements which enabled the unaudited accounts to be authorised for issue two weeks earlier than in previous years. This enabled us to bring forward our audit fieldwork and the date when we expect to sign and issue our audit opinion. We expect to issue our opinion two months prior to the statutory deadline

Key audit and financial reporting issues

Financial statements opinion

We did not identify any adjustments affecting the Council's reported financial position. The draft and audited financial statements for the year ended 31 March 2016 recorded a deficit on the provision of services of £7.237M. We agreed four amendments to disclosures with management to improve presentation and ensure full compliance with the CIPFA Code of Practice on Local Authority Accounting. None of these adjustments impact on the reported financial performance for the year.

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

- the finance team continue to produce good quality draft accounts that are supported by comprehensive working papers .
- legislation requires that in 2017/18 the Council will need to authorise its unaudited accounts by 31 May 2018. This year's accounts were issued on 15 June so the Council has made good progress towards meeting the revised timetable.

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 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.

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 detail 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 will be completed in line with the national deadline of 30 November 2016. We will report the outcome of this certification work through a separate report to the Accounts and Audit Committee after the work has been completed.

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 a number of 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 2016

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 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 £1.108M (being 2% of gross revenue expenditure in the previous year's audited accounts). We have considered whether this level remained appropriate during the course of the audit and have made no changes to our overall materiality level.

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 determined that misstatements below £55,400 are clearly trivial in the context of our audit. This remains the same as reported in our audit plan.

As we reported in our audit plan, we have identified the following items where we have applied a lower level materiality level.

Balance/transaction/disclosure	Explanation
Cash and cash equivalents	All transactions made by the Council affect the balance and it is therefore considered to be material by nature. Whilst the Council's cash and cash equivalents balance at 31 March 2016 exceeded our overall materiality level, we would require any errors identified in relation to this balance be corrected in the final version of the accounts. No such errors were identified.
Disclosures of officers' remuneration and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.
Disclosure of auditors' remuneration in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.
Related Party Transaction Disclosures	The Council conducts its business using public funds. The Related Party disclosures ensure 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.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to 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 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 international auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<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>Our testing has not identified any issues which indicated that the risk of fraudulent revenue recognition could not be rebutted.</p> <p>We have no issues to report in relation to the testing undertaken on material revenue transactions and balances recognised in the financial statements.</p>
2.	<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>	<ul style="list-style-type: none"> • Review and walkthrough of the controls implemented by management in relation to the posting of journal entries • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries • Review of unusual significant transactions 	<p>Our audit work has not identified any evidence of management over-ride of controls.</p> <p>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>

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
3.	<p>Valuation of property, plant and equipment (PPE) The Council revalues its assets on a rolling basis over a five-year period. 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>	<ul style="list-style-type: none"> Review of management's processes and assumptions for the calculation of the estimate. Review of the competence, expertise and objectivity of any management experts used. Review of the instructions issued to valuation experts and the scope of their work. Testing of revaluations made during the year to ensure they are input correctly into the Council's asset register. Discussions with the valuer about the basis on which the valuation is carried out and challenge of the key assumptions. Review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding. 	<p>Completing our audit procedures provided sufficient assurance to address the risk identified.</p> <p>We agreed a minor change to the accounts to enhance disclosure around the classification of assets valued in accordance with IFRS 13.</p>
4.	<p>Valuation of Local Government Pension Fund Liability The Council's pension fund liability represents a significant estimate in the financial statements.</p>	<ul style="list-style-type: none"> Review of management processes to ensure the data supplied to the Lancashire Pension Fund is accurate and complete. Liaison 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. Comparison of estimates used by the actuary to produce the valuation with actuals available to the Council and the Pension fund after the year-end. Procedures to understand and assess the assumptions and techniques used by the actuary to estimate the value of the pension fund liability. 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>Completing our audit procedures provided sufficient assurance to address the risk identified.</p> <p>No changes to the financial statements were required in light of these procedures.</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	Description of risk	Work completed	Assurance gained & issues arising
Employee remuneration	Employee remuneration accruals understated (Remuneration expenses not correct)	<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. • Testing of the reconciliation between the payroll system and the amounts recorded in the financial statements. 	<p>Completing our audit procedures provided sufficient assurance to address the risk identified.</p> <p>We have a small amount of work in this area outstanding but, to date, we have not identified any required amendments to the financial statements.</p>
Operating expenses	Creditors understated or not recorded in the correct period (Operating expenses understated)	<ul style="list-style-type: none"> • Review of 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 • Review of 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. • Testing of a sample of payments made in April and May 2016 to confirm that expenditure has been accounted for in the correct financial year. 	<p>Completing our audit procedures provided sufficient assurance to address the risk identified.</p> <p>We have not identified any required amendments to the financial statements.</p>

Accounting policies

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



Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<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 15% 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>	 GREEN

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 estimates and judgements

In this section we report on our consideration of key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Judgements and estimates	<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 were 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 that it does not need to produce Group Accounts. Subject to satisfactory confirmation from management, (through the Letter of Representation), that there are no material changes from the previous year's audited accounts for the Council's PEARL joint-ventures, 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 2016 by businesses within the Borough. The Council engages a specialist company to model how much should be provided for based on the appeals submitted. We reviewed how the Council uses this model to determine the value of its provision. We were satisfied the value of the provision as at 31 March 2016 was appropriately supported.</p>	<p style="text-align: center;"> GREEN</p>
Going concern	<p>The Financial Services Manager, in his role as the Section 151 officer, has completed an assessment which asserts that he 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. We are satisfied with management's assessment that the going concern basis is appropriate for the 2015/16 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 Matters

In this section we report other matters which have come to our consideration of other aspects of the Council's accounts

Element of Accounts	Comments
<p>Narrative Report</p>	<p>The Accounts and Audit Regulations 2015 introduced a requirement for Authorities to produce a narrative report to complement the financial statements. The narrative report replaces the explanatory foreword. This is the first year the Council has been required to produce this report. CIPFA published an update to the 2015-16 Code of Accounting Practice earlier this year which included suggested content for the narrative report.</p> <p>We have reviewed the Council's narrative report. We confirm that, in the majority of areas, the content recommended by CIPFA has been incorporated.</p> <p>Looking forward to next year, Management have agreed to consider including:</p> <ul style="list-style-type: none"> • more detailed non-financial performance information - the narrative report currently references publicly available reports where this information can be found. • information on cash flows - in line with the recommendation from CIPFA.
<p>Amounts reported for resource allocation decisions</p>	<p>The CIPFA Code of Accounting Practice requires Authorities to provide a note in their financial statements which reconciles the income and expenditure recorded by individual departments to the position presented in the Comprehensive Income and Expenditure Account.</p> <p>We confirmed the note produced by management reconciles departmental information back to the reported deficit on provision of services. However, we noted expenditure of £10.836M and income of £3.175M had not been allocated to individual departments. Whilst guidance from CIPFA does not require further analysis of these amounts, we have recommended that management assess whether allocating this expenditure to individual departments would provide a clearer indication of the total income and expenditure attributable to each department.</p>

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 considered and discussed the risk of fraud with the Accounts and Audit Committee and the Committee considered the Chair's response to our enquiries at its previous meeting. We have not been made aware of any other incidents in the period and 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. Management agreed to expand the disclosure note so to include details of balances held with the related parties identified.
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 letter of representation has been requested from the Council. In particular, representations have been requested from management to confirm that: (i) management are satisfied that its interest in the joint ventures with Barnfield Investment Properties continues to be immaterial to the Council; and (ii) the Council has a realistic expectation that assets classified as 'held for sale' will be disposed of before 31 March 2017.
5.	Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send confirmation requests to the Council's bankers and the institutions with which the Council had investments at the year-end. This permission was granted and the requests were sent. The necessary confirmations have been received.
6.	Disclosures	<ul style="list-style-type: none"> We have agreed a small number of changes to disclosures in the accounts. These are set out on page 17.
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: 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 Group/Council acquired in the course of performing our audit, or otherwise misleading. There are no matters to report.
8.	Specified procedures for Whole of Government Accounts	<ul style="list-style-type: none"> We are required to required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. However, the Council is below the thresholds set by the NAO so we are not required to undertake any detailed audit procedures on the 2015/16 consolidation pack. .

Internal controls

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

Our audit included consideration of internal controls 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. We considered and walked through the internal controls for each of the audit risks set out on pages 10-12. Additionally, our IT audit team undertook a review of the IT control environment. We have only one minor control issue to report as a result of our audit procedures

Assessment	Issue and risk	Recommendations
 AMBER	<ul style="list-style-type: none"> Documentation evidencing the manual authorisation of journals is not always dated. Providing such documentation would demonstrate journals have been authorised on a timely basis. 	Ensure that the manual files held to confirm journals have been authorised includes the date of authorisation.

Assessment

-  [RED] Significant deficiency – risk of significant misstatement
-  [AMBER] Deficiency – risk of inconsequential misstatement

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.

Adjusted misstatements

No adjustments to the primary statements were required as a result of the audit process. We also confirm that there are no non-trivial unadjusted misstatements.

Misclassifications and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Value £'000	Account balance	Summary of agreed changes
1 Disclosure	N/A	Property, Plant and Equipment	We agreed additional disclosures with management in relation to the surplus assets held by the Council. The revised accounts confirm that the surplus assets have been categorised as 'Level 2' for the purposes of International Financial Reporting Standard 13 ('Fair Value Measurement')
2 Disclosure	Various	Related Party Transactions	We agreed changes to the Related Party Transactions disclosures to ensure full compliance with relevant accounting standards. The revised notes include details of the balance outstanding between the Council and its identified related parties at the year-end.
3 Disclosure	22,500 (15/16) 23,000 (14/15)	Note 22 - Cash Flow Statement – Investing Activities – Purchase of Short-Term Investments	We agreed with management that cash flows associated with the purchase and proceeds of short-term investments should be reported on a gross basis in the notes to the cash flow statement. A corresponding adjustment has been made to the prior year figures to aid comparison.
4 Disclosure	23,000 (15/16) 18,500 (14/15)	Note 22 - Cash Flow Statement – Investing Activities – Proceeds of Short-Term Investments	

Section 3: Value for Money

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non-audit services and independence

06. 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 2015. AGN 03 identifies one single criterion for auditors to evaluate:

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed 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 March 2016 and identified one significant risk, which we communicated to you in the Audit Plan which we presented to the Committee on 22 March 2016.

Our risk assessment was based on consideration of the specific areas of proper arrangements using the guidance contained in AGN03.

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 extent to which savings schemes set out in the 2016/17 budget approved by Council were robust and underpinned by realistic assumptions.
- Whether the Council had modelled its likely financial position beyond the 2016/17 financial year and how much progress had made to identify how the Council would address the projected deficit from 2017/18 onwards.

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 the following page.

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.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Work to address	Findings and conclusions
<p>Medium Term Financial Plan (MTFP) In our 2014-15 Audit Findings Report we noted that the Council had been 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 are 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>

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: Other statutory powers and duties

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

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

	Issue	Commentary
1.	Public interest report	<ul style="list-style-type: none">• We have not identified any matters that would require a public interest report to be issued
2.	Written recommendations	<ul style="list-style-type: none">• We have not made any written recommendations that the Council is required to respond to publicly
3.	Application to the court for a declaration that an item of account is contrary to law	<ul style="list-style-type: none">• We have not used this duty.
4.	Issue of an advisory notice	<ul style="list-style-type: none">• We have not used this duty.
5.	Application for judicial review	<ul style="list-style-type: none">• We have not used this duty.

Section 5: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

We confirm below our final fees charged for the audit. We can also confirm that there were no fees for the provision of non audit services aside from the certification of grants in accordance as part of the fees set by Public Sector Audit Appointments Ltd.

Fees

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

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

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 therefore we 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.

Section 6: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

Communication to those charged with governance

International Standards on Auditing 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.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, 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		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	Record the date of authorisation when journals are approved for posting as part of month-end procedures	Low	Agreed	Implemented
2	Expand the narrative statement for 2016/17 to include information on the Council's non-financial performance and cash flows during the year	Low	Agreed	Will be included in 2016/17 accounts
3	Assess whether a more detailed analysis of the cost of support services could be produced to provide a clearer indication of each department's income and expenditure	Low	Agreed	Will be included in 2016/17 accounts

Appendix B: Audit opinion

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

DRAFT 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 2016 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, the Movement on the Housing Revenue Account Statement, the 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 2015/16.

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 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 the Financial Service Managers' Responsibilities, 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 2015/16, 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 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 2016 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 2015/16 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 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: a Framework' published by CIPFA/SOLACE in June 2007; or we issue a report in the public interest under section 24 of the Act; or we make a written recommendation to the Authority under section 24 of the Act; or we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

Respective responsibilities of the Authority and 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.

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 to secure value for money through economic, efficient and effective use of its resources

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, 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 these criteria as those necessary for us to consider under the Code in satisfying ourselves whether the Authority put in place proper arrangements to secure value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

We planned our work in accordance with the Code. 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 to secure value for money through economic, efficient and effective use of its 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 2015, we are satisfied that in all significant respects *the Authority* has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

Certificate

We certify that we have completed the audit of the accounts of the Authority in accordance with the requirements of the Act and the Code.

Karen Murray
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

4 Hardman Square
Spinningfields
Manchester M3 3EB

x July 2016



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