External Audit Plan

Year ending 31 March 2018

Pendle Borough Council

March 2018

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Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Pendle Borough Council ('the Council') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Pendle Borough Council. We draw your attention to both of these documents on the PSAA website.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- financial statements (including the Annual Governance Statement) that have been prepared by management with the oversight of those charged with governance (the Accounts and Audit Committee); and
- Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Accounts and Audit Committee of their responsibilities. 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 audit approach is based on a thorough understanding of the Council's business and is risk based.

Significant risks	Those risks requiring specific audit consideration and procedures to address the likelihood of a material financial statement error have been identified as: • Management over-ride of controls • Valuation of land and buildings • Valuation of pension fund net liability We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.
Materiality	We have determined planning materiality to be £1.063 million (PY £1.073 million), which equates to 2% of expenditure in the prior year accounts. We will report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £53,000 (PY £54,000).
Value for Money arrangements	Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risks: • 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 2018-2021. The Council needs to ensure that robust, credible plans are in place to deliver the savings required.
Audit logistics	We commenced our initial planning in December 2017 and we will return to the Council in March 2018 to complete our interim audit procedures. Our final visit will take place in June 2018. Our key deliverables are this Audit Plan and our Audit Findings Report. Our fee for the audit will be no less than £40,630 for the Council. This is unchanged from the prior year.
Independence	We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Deep business understanding

Changes to service delivery

Commercialisation

The scale of investment activity, primarily in commercial property, has increased as local authorities seek to maximise income generation. These investments are often discharged through a company, partnership or other investment vehicle. Local authorities need to ensure that their commercial activities are presented appropriately, in compliance with the CIPFA Code of Practice and statutory framework, such as the Capital Finance Regulations. Where borrowing to finance these activities, local authorities need to comply with CIPFA's Prudential Code. A new version was published in December 2017.

Changes to financial reporting requirements

Accounts and Audit Regulations 2015 (the Regulations)

The Department of Communities and Local Government (DCLG) is currently undertaking a review of the Regulations, which may be subject to change. The date for any proposed changes has yet to be confirmed, so it is not yet clear or whether they will apply to the 2017/18 financial statements.

Under the 2015 Regulations local authorities are required to publish their accounts along with the auditors opinion by 31 July 2018.

Changes to the CIPFA 2017/18 Accounting Code

CIPFA have introduced other minor changes to the 2017/18 Code which confirm the going concern basis for local authorities, and updates for Leases, Service Concession arrangements and financial instruments.

Key challenges

Savings Programme

The Council is on course to contain expenditure within budget estimates in the current financial year. In December 2017 management reported an anticipated underspend for the year of £505,000. Nevertheless the challenge going forward is significant as the Council needs to find savings of £3.26m over the period 2018/19 to 2020/21. Delivering these savings will require difficult decisions to be taken regarding future service provision in the Borough.

Business Growth

Growing the business base in the Borough has been a long-standing objective of the Council. In recent years the Council has made good progress, as evidenced by the development of the Brierfield Mill site. The Council needs to ensure that it continues to work effectively with its private and public sector partners to support the economic development of the Borough.

Our response

- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will consider whether your financial position leads to uncertainty about the going concern assumption and will review any related disclosures in the financial statements.
- We will keep you informed of changes to the Regulations and any associated changes to financial reporting or public inspection requirements for 2017/18 through on-going discussions and invitations to our technical update workshops.

Significant risks identified

Significant risks are defined by professional standards as risks that, in the judgement of the auditor, require special audit consideration because they have a higher risk of material misstatement. Such risks often relate to significant non-routine transactions and judgmental matters. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA 240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Pendle Borough Council, mean that all forms of fraud are seen as unacceptable Therefore we do not consider this to be a significant risk for Pendle Borough Council.
Management over-ride of controls	Under ISA (UK) 240 there is a non-rebuttable presumed risk that management over-ride of controls is present in all entities. Management over-ride of controls is a risk requiring special audit consideration.	We will: • gain an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness • obtain a full listing of journal entries, identify and test large and unusual journal entries for appropriateness • evaluate the rationale for any changes in accounting policies and/or significant unusual transactions.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings	The Council revalues its land and buildings using a five year rolling programme. Valuations are undertaken by the Council's external valuer. Additional valuations are undertaken, above and beyond those planned as part of the five-year programme, if these are considered necessary to ensure that the carrying value of land and buildings is not materially different from current value at the Balance Sheet date. During the 2017-18 financial year the Council has incurred significant capital expenditure to acquire the ACE Centre and No. 1 Market Street. These buildings will appear on the Council's Balance Sheet for the first time in the 2017-18 financial statements The valuation of land and buildings is a key estimate made by management in order to produce the financial statements. We have identified this estimate and the assumptions underpinning the estimate as a risk which requires special audit attention.	We will: • review management's processes and assumptions for the preparation of the estimate, including detailed consideration of the instructions issued to the external valuer and how the scope of the valuer's work has been determined • assess the competence, expertise and objectivity of the external valuer • meet with the valuer to discuss the basis on which valuations have been carried out and confirm this is consistent with our expectation based on the provisions of the CIPFA Code of Practice and relevant accounting standards • identify the data provided to and/or obtained by the valuer to inform the valuation process and confirm the appropriateness of the data used • test revaluations provided during the year to confirm these are accurately reflected in the asset register and that the associated accounting entries have been posted to reflect movements in asset values • review management's process for obtaining assurance in relation to those assets not subject to formal valuation during the year to confirm the process is sufficiently robust to mitigate the risk the value of assets not revalued might be materially misstated (either at the level of individual assets or in aggregate).
Valuation of pension fund net liability	The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements. We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.	We will: • identify the controls put in place by management and the controls established by the Lancashire Pension Fund to ensure that the pension fund liability is not materially misstated. We will assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement • evaluate the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. On behalf of external audit suppliers to local government, the National Audit Office has commissioned an auditor's expert to undertake a review of the actuaries engaged by local government pension funds, including the Lancashire Pension Fund. We will consider the expert's findings and follow-up on any implications for our audit • undertake procedures to confirm the reasonableness of the actuarial assumptions made, particularly if these are specific to Pendle • check the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary

Reasonably possible risks identified

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the Council.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Completeness of Operating Expenses/Creditors	The Council purchases goods and services from a range of suppliers. At the year-end management uses judgement to estimate the value of goods or services consumed which have not yet been paid for so that where an invoice has not been received appropriate accruals can be reflected in the Balance Sheet. This forms part of the closedown process for both capital and revenue transactions and the use of estimates is required to enable the Council to close its ledgers promptly. Given the use of estimation techniques, we identified completeness of non- pay expenditure as a risk requiring particular audit attention.	We will • gain an understanding of the Council's process for initiating, processing, recording and reporting accounts payable invoices and other types of non-pay expenditure incurred by the Council • test the year-end reconciliation of the accounts payable system to the general ledger • assess the accruals process established by management and consider whether it is sufficiently comprehensive to ensure year-end accruals are not materially misstated • test a sample of year end accruals and creditor balances in the year-end balance sheet to confirm these accurately reflect year-end liabilities. • test a sample of payments made in April 2018 to confirm the associated invoices have been accounted for in the correct financial year.
Completeness of Employee remuneration	The Council employs around 250 staff. Expenditure on payroll costs amounted to around 15.5% of total costs incurred during the 2016-17 financial year. Liberata, the Council's outsourcing partner, provides the Council's payroll function. There is an established interface between the payroll system used by Liberata and the Council's general ledger. Given the large number of transactions associated with the Council's payroll there is a risk that payroll expenditure could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention.	We will • confirm our understanding of the Council's processes and the associated controls in place to ensure that Council employees receive the correct pay each month and that the amounts paid are completely and accurately recorded in the General Ledger and reported as part of the financial statements • test the year-end reconciliation of the payroll system to the general ledger. • test for reasonableness any accruals posted to the Council's ledger to reflect amounts due to employees but not paid at the year-end.

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued and consistent with our knowledge of the Council.
- We will read your Narrative Statement and check that it is consistent with the financial statements on which we give an opinion and that the disclosures included in it are in line with the requirements of the CIPFA Code of Practice.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under the Act and the Code, as and when required, including:
    - giving electors the opportunity to raise questions about your 2017/18 financial statements, consider and decide upon any objections received in relation to the 2017/18 financial statements;
    - issue of a report in the public interest; and
    - making a written recommendation to the Council, copied to the Secretary of State.
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570). We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements.

Setting Materiality – Overall Materiality

The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. 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.

Materiality for planning purposes

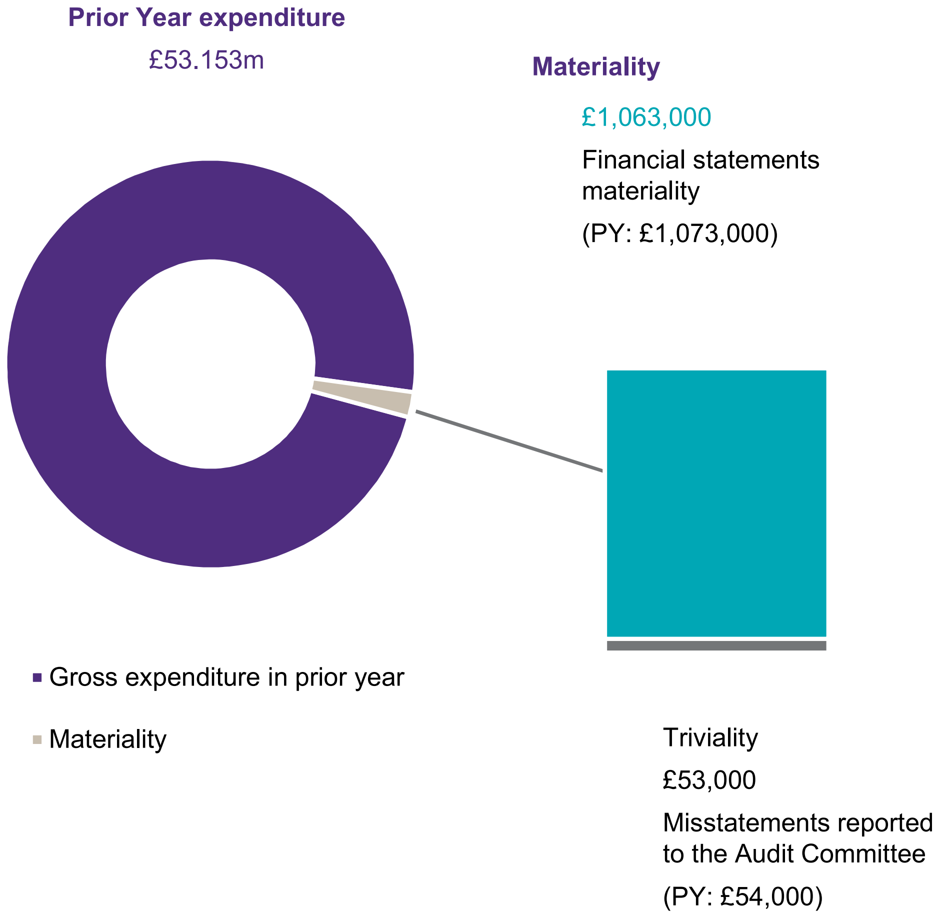
We propose to calculate financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. In the prior year we used the same benchmark. We have determined planning materiality (the financial statements materiality determined at the planning stage of the audit) to be £1.063 million (PY £1.073 million), which equates to 2% of expenditure in the prior year accounts. We design our procedures to detect errors in specific accounts at a lower level of precision.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality

Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Accounts and Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £53,000 (PY £54,00).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Accounts and Audit Committee to assist it in fulfilling its governance responsibilities.



Setting Materiality – Materiality for Sensitive Items

Identifying transactions requiring a separate materiality level

Alongside calculating an overall materiality level to inform our audit of the financial statements, auditing standards require auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'.

We have determined that a separate materiality level should be adopted in the following areas:

Related party transactions - 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 or TCWG.

Disclosures of officers' remuneration and salary bandings in the notes to the financial statements - due to public interest in these disclosures and the statutory requirement for them to be made.

Determining materiality level for sensitive items

Materiality for the sensitive items has been calculated on a similar basis to that used for the final statements, i.e. a proportion of the total value of the disclosure. In our views error in the disclosure below the materiality levels quoted would not impact on economics decisions taken by users of the financial statements. For both of the areas highlighted above, we will review the completeness of the disclosures in the draft financial statements based on our knowledge of the Council's affairs. We will also review the materiality levels proposed on receipt of the draft statements and alter these if this is considered necessary.

Proposed Materiality Levels for Sensitive Items

Area of the Accounts	Proposed Materiality
Related Party Transactions	£59,000 (based on 2% of total related party transactions in the 2016/17 audited statements)
Senior Officer Remuneration	£8,000 (based on 2% of total senior officer remuneration in the 2016/17 audited statements)

Value for Money arrangements

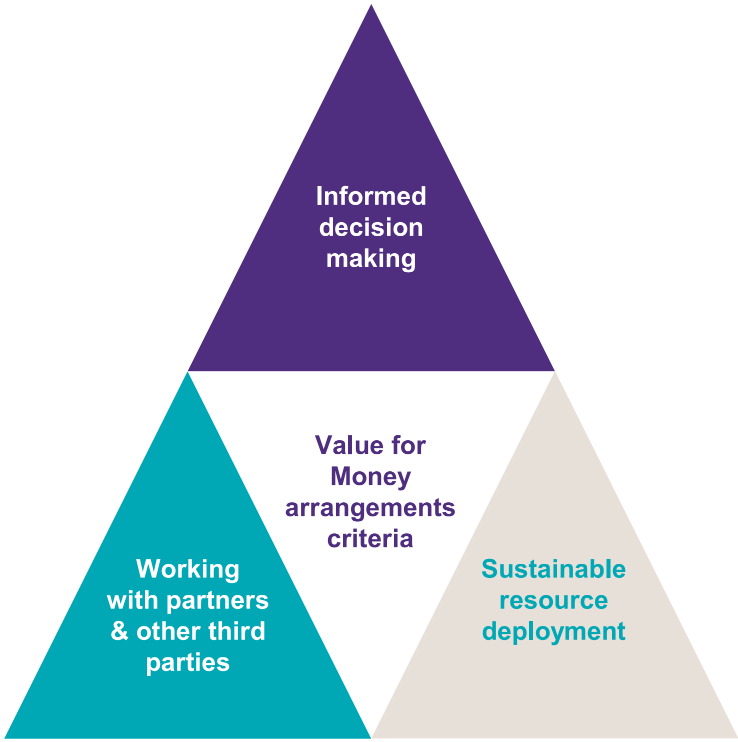
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance 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."

This is supported by three sub-criteria, as set out below:



Significant VFM risks

Those risks requiring specific audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Council to deliver value for money.

Medium Term Financial Strategy

- 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 2018-2021. The Council needs to ensure that robust, credible plans are in place to deliver the savings required.

Audit logistics, team & audit fees

Mark Heap, Engagement Lead

Director

Neil Krajewski, Audit Manager

Senior Manager

Pam Swallowe, Audit In-charge

Associate

Audit fees

The planned audit fees are no less than £40,630 for the financial statements audit and an additional fee for grant certification. The indicative grant fee determined by PSAA for this Council is £7,986. 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'. At this stage we do not anticipate any such fees but will report in our Audit Findings Report if any additional fees arise.

In setting your fee, we have assumed that the scope of the audit, and the Council and its activities, do not significantly change.

Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, we have detailed our expectations and requirements in the following section ‘Early Close’. If the requirements detailed overleaf are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

Early close

Meeting the early close timeframe

Bringing forward the statutory date for publication of audited local government accounts to 31 July this year, across the whole sector, is a significant challenge for local authorities and auditors alike. For authorities, the time available to prepare the accounts is curtailed, while, as auditors we have a shorter period to complete our work and face an even more significant peak in our workload than previously.

We have carefully planned how we can make the best use of the resources available to us during the final accounts period. As well as increasing the overall level of resources available to deliver audits, we have focused on:

- bringing forward as much work as possible to interim audits
- starting work on final accounts audits as early as possible, by agreeing which authorities will have accounts prepared significantly before the end of May
- seeking further efficiencies in the way we carry out our audits
- working with you to agree detailed plans to make the audits run smoothly, including early agreement of audit dates, working paper and data requirements and early discussions on potentially contentious items.

We are satisfied that, if all these plans are implemented, we will be able to complete your audit and those of our other local government clients in sufficient time to meet the earlier deadline.

Client responsibilities

Where individual clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. We will therefore conduct audits in line with the timetable set out in audit plans (as detailed on page 12). Where the elapsed time to complete an audit exceeds that agreed due to a client not meetings its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit by the statutory deadline. Such audits are unlikely to be re-started until very close to, or after the statutory deadline. In addition, it is highly likely that these audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit or additional audit fees being incurred, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement;
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you;
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples;
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit;
- respond promptly and adequately to audit queries.

In return, we will ensure that:

- the audit runs smoothly with the minimum disruption to your staff;
- you are kept informed of progress through the use of an issues tracker and weekly meetings during the audit;
- we are available to discuss issues with you prior to and during your preparation of the financial statements.

Independence & non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2016 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

Non-audit services

No non-audit services were identified.

Appendices

A. Revised ISAs

Appendix A: Revised ISAs

Detailed below is a summary of the key changes impacting the auditor's report for audits of financial statement for periods commencing on or after 17 June 2016.

Section of the auditor's report	Description of the requirements
Conclusions relating to going concern	We will be required to conclude and report whether: • management's use of the going concern basis of accounting is appropriate; • management have disclosed identified material uncertainties that may cast significant doubt about the Council's ability to continue as a going concern.
Material uncertainty related to going concern	We will need to include a brief description of the events or conditions identified that may cast significant doubt on the Council's ability to continue as a going concern when a material uncertainty has been identified and adequately disclosed in the financial statements. Going concern material uncertainties are no longer reported in an Emphasis of Matter section in our audit report.
Other information	We will be required to include a section on other information which includes: • responsibilities of management and auditors regarding other information; • a statement that the opinion on the financial statements does not cover the other information unless required by law or regulation; • reporting inconsistencies or misstatements where identified.
Additional responsibilities for directors and the auditor	We will be required to include the respective responsibilities for directors and us, as auditors, regarding going concern.
Format of the report	The format of the auditor's report will change, in particular the opinion section will appear first, followed by the basis of opinion section.

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