



The Annual Audit Letter for Pendle Borough Council

Year ended 31 March 2020

14 January 2021



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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Pendle Borough Council (the Council) for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Accounts and Audit Committee as those charged with governance in our Audit Findings Report on 10 November 2020.

Our work

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Materiality	We determined materiality for the audit of the Council's financial statements to be £930,000, which is 2% of the Council's gross cost of services.
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 30 November 2020. We included an emphasis of matter paragraph in our report in respect of the uncertainty over valuations of the Council's land and buildings and the property assets of its pension fund given the Coronavirus pandemic. This does not affect our opinion that the statements give a true and fair view of the Council's financial position and its income and expenditure for the year.
Whole of Government Accounts (WGA)	We completed work on the Council's consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.

Executive Summary

Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 30 November 2020.
Certificate	We certified that we have completed the audit of the financial statements of Pendle Borough Council in accordance with the requirements of the Code of Audit Practice on 30 November 2020.

Working with the Council

Restrictions for non-essential travel has meant both Council and audit staff have had to work remotely. We have used video calling to have regular meetings with finance staff and also confirm the accuracy of information produced by the entity. Virtual meetings have been held with management and also the Accounts and Audit Committee.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff .

Grant Thornton UK LLP
January 2021

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the Council's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the group financial statements to be £930,000, which is 2% of the Council's gross cost of services. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We also set a lower level of specific materiality for senior officer remuneration of £5,000.

We set a lower threshold of £46,500, above which we reported errors to the Accounts and Audit Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts to check it is consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Covid-19</p> <p>The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;</p> <ul style="list-style-type: none"> - Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation - Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates - Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and - Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. <p>We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our audit work we have;</p> <ul style="list-style-type: none"> • worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported. The draft financial statements were provided on 10th August 2020; • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Council property valuation expert • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; • evaluated whether sufficient audit evidence could be obtained through remote technology; • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations ; • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; • discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence. 	<p>The results of our work concluded that appropriate arrangements had been put in place to manage the COVID 19 situation.</p> <p>Due to the potential impact that Covid-19 has on the value of your land and buildings at 31 March 2020, your valuer has disclosed a material valuation uncertainty within their valuers report (in line with VPGA 10 of the RICS Red Book Global). You have disclosed this material uncertainty within note 3. We reflected your disclosure within an "emphasis of matter" paragraph in our opinion. This is not a modification or qualification of the opinion and is consistent with other audited bodies where the valuer has highlighted a material valuation uncertainty.</p> <p>Similarly, there is also an impact of Covid-19 on the valuation of the Local Government Pension Fund (LGPS) property assets. Lancashire's LGPS accounts include a material uncertainty around the valuation of property assets and the fund auditor intends to include an emphasis of matter in their auditor's report in this regard. Your financial statements disclosures have been updated (note 3) to reflect this and our audit report will also contain an "emphasis of matter" paragraph relating to this matter.</p>

Audit of the Financial Statements

Significant Audit Risks - Continued

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of land and buildings</p> <p>The Authority revalues its land and buildings on a rolling five-yearly basis and annually for surplus assets. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£49 million) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our audit work we have;</p> <ul style="list-style-type: none"> • updated our understanding of the processes and controls put in place by management to ensure that the Council's valuation of land and buildings were not materially misstated and evaluated the design of the associated controls • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluated the competence, capabilities and objectivity of the valuation expert • discussed with the valuer the basis on which the valuation was carried out • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the Authority's valuer's report and the assumptions that underpin the valuation. • tested revaluations made during the year to see if they had been input correctly into the Authority's asset register • evaluated the assumptions made by management for those assets not revalued during the year and how management have satisfied themselves that these are not materially different to current value at year end. 	<p>Management identified the material uncertainty regarding the valuation of land and buildings due to market uncertainty arising from the Covid-19 pandemic reported by their expert valuer as a significant issue in Note 3 to the financial statements.</p> <p>Our audit work has identified an issue in respect of valuation of land and buildings which related to the incorrect accounting treatment for individual assets derecognised in year and combined into a single asset. Our audit work also identified £1.6m of surplus assets which are correctly included at fair value but have not been reassessed at the balance sheet date. These should be revalued on an annual basis, therefore, we have raised as a recommendation in the action plan, see Appendix A.</p>

Audit of the Financial Statements

Significant Audit Risks - Continued

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of net pension liability The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£44 million) in the Authority's balance sheet and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • have received the information and assurances requested from the auditor of Lancashire Pension Fund to enable us to conclude our procedures in this area. 	<p>The Pension Fund Auditor has included an emphasis of matter in the audit report drawing attention to a material valuation uncertainty relating to the Fund's real estate portfolio. The Council has included additional disclosures within the financial statements and we have concluded an Emphasis of Matter in our opinion in relation to these findings.</p> <p>Our audit work has not identified any other issues in respect of valuation of the net liability.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Management override of internal controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our audit work we completed we;</p> <ul style="list-style-type: none"> • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. 	<p>Our audit work has not identified any issues in respect of management override of controls.</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 30 November 2020.

Preparation of the financial statements

The Council presented us with draft financial statements in August in accordance with the agreed timescale, and provided working paper to support them throughout the audit. Our audit identified some delays with the audit evidence provided with the financial statements which has resulted in the audit taking longer to complete than in previous years. However we acknowledge the challenging circumstances with the remote working environment and software reporting issues.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Council's Accounts and Audit Committee on 10 November 2020.

Annual Governance Statement and Narrative Report

We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website in the draft Statement of Accounts in August.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)

We carried out work in line with instructions provided by the NAO . We issued an assurance statement which confirmed the Council was below the audit threshold

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of Pendle Borough Council in accordance with the requirements of the Code of Audit Practice on 30 November 2020.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in April 2020 which specified the criterion for auditors to evaluate:

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

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

As part of our Audit Findings report agreed with the Council in November 2020, we agreed recommendations to address our findings.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	Findings and conclusions
<p>Financial sustainability</p> <p>Consistent with previous years the Council has delivered its planned outturn for 2018/19 with a balanced position against its net expenditure budget of £12.197m delivering its savings of £847,000 and utilised £319,000 from the Budget Strategy reserve (a reduction of £169,000 on the original planned transfer figure). The Council maintained its General Fund Balance at £1,000,000 which has been the level the Council has set for several years as the 'minimum working balance', together with £6.374m in Earmarked Reserves, including £2.988m in the Budget Strategy Reserve.</p> <p>In February 2019 the Council set a balanced budget for 2019/20, approving Net Revenue Expenditure of £13,525k. In January the Council reported a projected underspend of £175k against the 2019/20 budget and approved revised Net Revenue Expenditure of £13,350k.</p> <p>Significant pressures remain for the Medium Term Financial Plan. The Council have previously reported that savings of around £4m are required over the three year period to 2022/23, with the Budget Strategy Reserve projected to be almost exhausted by 2023.</p> <p>We will continue to monitor the Authority's financial position through regular meetings with senior management and consider how the Authority manages its budget. We will continue to assess progress in the identification and delivery of the future savings required as identified in the current iteration of the MTFP.</p>	<p>Consistent with previous years the Council has delivered its planned outturn for 2019/20. When setting the budget, the Council planned to use £1.1m from the budget support reserve to support the revenue budget. This went down to £0.9m on the revised budgets and an underspend of £424k due to reduction of spend in net cost of services.</p> <p>The revenue outturn includes the creation of 3 new reserves:</p> <ul style="list-style-type: none"> • COVID19 Support reserve Council received £70k in March 2020 this was placed in an earmarked reserve to be paid in 2020/21 with a further three tranches of funding totalling £1,785m. • Future High Streets Fund - £138k have been separately identified in an earmarked reserve as part of the 2019/20 outturn position. • Towns Fund Reserve - £162k have been separately earmarked on closure of the 2019/20 accounts for release in future years. <p>In March 2020 the Council, like every other council were impacted by the COVID 19 epidemic. The impact of this has been felt throughout the Council's services. The Council has had to incur additional expenditure which includes increased support to the leisure trust, implementation of the track and trace system as well as the costs to enable staff to work remotely. As well as the increased expenditure the Council has also suffered from a reduction of income through the pandemic. Overall, the Council estimated the net additional costs to be £2.7m according to the Council's Financial Management Return to Government in September 2020. Government support has been provided to cover part of these costs, as at September 2020, the Council has received £1.1m. Other support maybe available to cover part of these costs however the Council have also created a reserve of £1.5m to cover these costs. The reserve has been funded using £1.250m from the budget strategy reserve and £0.250m from the general fund working balance.</p> <p>The Medium-term financial strategy of the Council has been updated following the pandemic and shows the councils continued challenging financial position. The Council has set a balanced budget for 2020/21 this has been achieved by using £714k of the budget reserve. The last of the budget reserve will be used in 2021/22 unless the Council takes actions to reduce its net expenditure. For the three years from 2021/22 the Council does forecast a shortfall of around £3.1m which is around £1m each year. However this is based on a range of assumptions that may change throughout the period. Therefore, the Council will have to continue to identify ways</p>

Value for Money conclusion

Value for Money Risk - Continued

Risks identified in our audit plan	Findings and conclusions
<p>Financial sustainability</p> <p>Continued</p>	<p>in which they can continue with their established financial strategy which is to:</p> <ul style="list-style-type: none"> • GROW council's income by increasing taxable capacity both in business rates and council tax. • CHARGING for services so raising income whilst continuing with the services the resident's value. • SAVING costs by looking at how the Council delivers services • STOP spending on lower or non-priority areas. <p>As well as undertaking a review of remaining reserves and balances to determine the scope and implications of freeing up committed resources in support of the General Fund Budget and maintain the balance of General fund at £1m.</p> <p>The Council has a General Fund balance of £1m at the year end which is the limit they would like to maintain. If the council were unable to identify further savings to fund the budget they will need to look at further options, including the use of Earmarked Reserves. The Council realises this is not the way forward and are confident savings will be identified to fund the budget gap and minimal reserves are used</p> <p>The Council is currently reviewing saving options for 2021/22 through the budget working group. Both Officers and Members need to make sure that effective financial management continues to be at the heart of all decisions to ensure that the Council is best placed to deal with the challenges ahead.</p> <p>We concluded that there were appropriate arrangements in place for the in year reporting and monitoring of the financial position.</p>

A. Reports issued and fees

Audit fees 2019/20	Proposed fee
Council scale fee	31,285
Additional proposed audit fee at planning stage	6,900
Total proposed audit fees (excluding VAT) at planning	£38,185
Further additional fees proposed at completion	£6,500
Total proposed audit fees (excluding VAT) on completion	£44,685

Reports issued

Report	Dated issued
Audit Plan	July 2020
Audit Findings Report	November 2020
Annual Audit Letter	January 2021

The Council Audit Plan in July 2020 included £6,900 of proposed addition fees to the scale fee to take account of the additional scepticism required on the audit and the raising of the bar by our regulator. This is reflected in the total proposed audit fees at planning above of £38,185

Since the presentation of the audit plan and subsequent letter, we have added a significant risk to the audit following the impact of Covid-19. We have now reflected on the time taken to discharge our responsibilities this year and are proposing a further increase in fees of £8,000 in addition to those proposed at the planning stage of the audit. This brings the total proposed audit fee up to £44,685. Further details on the breakdown is provided on the next page.

This further charge has not been entered into lightly but reflects only a proportion of the significant additional work we have had to undertake this year to discharge our responsibilities.

We have been discussing this issue with PSAA over the last few months and note these issues are similar to those experienced in the commercial sector and NHS. In both sectors there has been a recognition that audits will take longer with commercial audit deadlines being extended by 4 months and NHS deadline by a month. The FRC has also issued guidance to companies and auditors setting out its expectation that audit standards remain high and of additional work needed across all audits. The link attached <https://www.frc.org.uk/covid-19-guidance-and-advice> (see guidance for auditors) sets out the expectations of the FRC.

Please note that these proposed additional fees are subject to approval by PSAA in line with the Terms of Appointment.

Appendix A – Pendle Borough Council Audit fee variations – Further analysis

Final proposed audit fees

The table below shows the proposed variations to the original scale fee for 2019/20 subject to PSAA approval

Audit area	£	Rationale for fee variation
Scale fee	31,285	
Raising the bar	1,900	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This required additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity.
Pensions – (IAS) 19	1,750	We have increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting.
PPE Valuation – work of experts	1,750	We have increased the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations.
Covid-19	1,500	We have included an estimate for the increased costs in relation to the Covid-19 pandemic.
Revised planning fee	38,185	
Covid-19 – updated costs.	6,500	Over the past six months the current Covid-19 pandemic has had a significant impact on all of our lives, both at work and at home. The impact of Covid-19 on the audit of the financial statements for 2019/20 has been multifaceted. This includes: <ul style="list-style-type: none"> Revisiting planning - we have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has resulted in the identification of a significant risk at the financial statements level in respect of Covid-19 necessitating the issuing of an addendum to our original audit plan as well as additional work on areas such as going concern and disclosures in accordance with IAS1 particularly in respect to material uncertainties. Management's assumptions and estimates - there is increased uncertainty over many estimates including pension and other investment valuations. Many of these valuations are impacted by the reduction in economic activity and we are required to understand and challenge the assumptions applied by management. Financial resilience assessment – we have been required to consider the financial resilience of audited bodies. Our experience to date indicates that Covid-19 has impacted on the financial resilience of all local government bodies. This has increased the amount of work that we need to undertake on the sustainable resource deployment element of the VFM criteria necessitating enhanced and more detailed reporting in our ISA260. Remote working – the most significant impact in terms of delivery is the move to remote working. We, as other auditors, have experienced delays and inefficiencies as a result of remote working, including managing around agreed dates for receiving the accounts in light of knock on implications of other sector audits, and delays in responses during audit fieldwork. These are understandable and arise from the availability of the relevant information and/or the availability of key staff (due to shielding or other additional Covid-19 related demands). In many instances the delays are caused by our inability to sit with an officer to discuss a query or working paper. Gaining an understanding via Teams or phone is more time-consuming.
Total proposed audit fees on completion	44,685	

A. Reports issued and fees continued

Fees for non-audit services

Service	Fees £
Audit related services	£11,000
- Grant Claim - HBAP	

Non- audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor.



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