The Audit Findings for Pendle Borough Council

Year ended 31 March 2021

Pendle Borough Council
25 January 2022

Contents

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. 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.

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management and Accounts and Audit Committee.

Georgia Jones

Name : Georgia Jones
For Grant Thornton UK LLP
Date : 10 January 2022

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Pendle Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2021 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and 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
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was completed remotely during July 2021 – January 2022. Our findings are summarised on pages 5 to 21. We have identified 3 adjustments to the financial statements, these have had a nil impact to the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B. and to date there are no matters of which we are aware that would require modification of our audit opinion, subject to the outstanding matters listed on page 5.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit report opinion will be unqualified.

Our work is substantially complete

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in Appendix G to this report. We expect to issue our Auditor's Annual Report by the end of April 2022. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Our work to date has identified concerns with the stability of the finance team given the recent changes. Although permanent staff are now in post we will complete additional work in relation to this risk. For further detail see the value for money arrangements section of this report.

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

We expect to certify the completion of the audit upon the completion of our work on the Council's VFM arrangements, which will be reported in our Annual Auditor's report in April 2022.

Significant Matters

We did not encounter any significant difficulties or identify any significant matters arising during our audit.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and the Accounts and Audit Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, 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.

Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment, including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter our audit plan, as communicated to you on 27th July 2021.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion after the Accounts and Audit Committee meeting on 25 January 2022, as detailed in Appendix E. These outstanding items include:

- responses to outstanding queries in relation to pensions prepayment.
- finalise completion on the review of the reserves notes and narrative statement following the receipt of amended accounts;
- final review by manager and engagement lead;
- receipt of management representation letter; and
- review of the final set of financial statements.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff. As highlighted in our audit plan the impact of the pandemic has meant that both your finance team and our audit team faced audit challenges again this year, due to remote access working arrangements. We have worked effectively with your finance staff remotely accessing financial systems, video calling and verifying the completeness and accuracy of information provided remotely by the Council. This year has also had a number of changes in the finance team which has had some impact on the audit with competing pressures on the capacity of the finance team.

2. Financial Statements

Our approach to 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.

We revised the materiality levels from planning due to the actual gross expenditure changing significantly from that at the planning stage resulting in a review of the appropriateness of the materiality figure.

Subsequent to this, a material error was identified in the financial statements which significantly reduced gross expenditure. As such we have had to again recalculate our materiality levels based on the revised accounts.

We detail in the table across our determination of materiality for Pendle Borough Council.

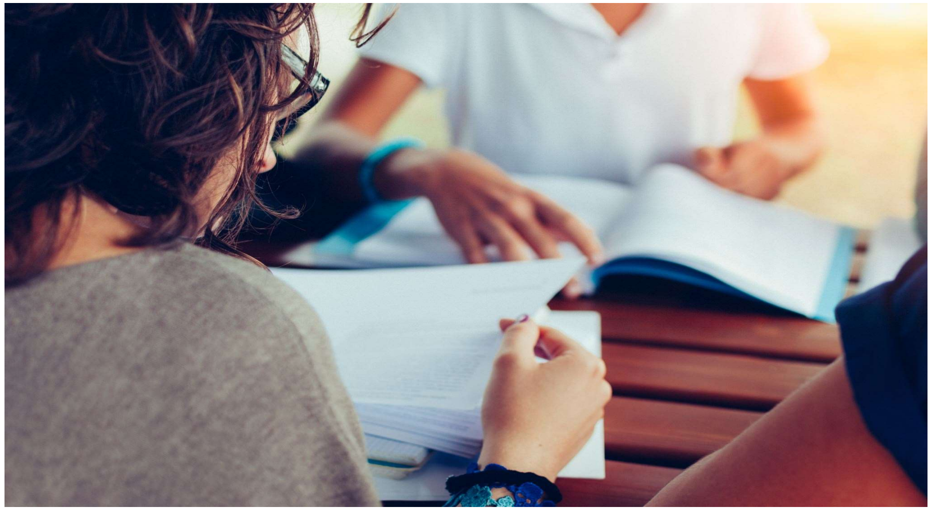
	Planning Materiality (£)	Post Statements Materiality (£)	Revised Post Statements Materiality (£)	Qualitative factors considered
Materiality for the financial statements	957,000	1,295,860	1,008,040	This equates to 2% of your gross operating expenditure for the current year and is considered to be the level above which users of the financial statements would wish to be aware in the context of overall expenditure.
Performance materiality	717,750	971,895	756,030	Based on 75% of materiality derived from the risk of misstatement
Trivial matters	47,850	64,800	50,402	Based on a 5% of materiality
Materiality for senior officer remuneration	5,000	5,000	5,000	Due to the sensitive nature of the disclosure

2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
Management override of 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. . The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, this was one of the most significant assessed risks of material misstatement.	We have: • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness Our audit work is substantially complete. The work to date has not identified any evidence of management override of controls.



2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
ISA240 revenue and expenditure recognition risk Revenue ISA (UK) 240 includes a rebuttable presumed risk that revenue recognition 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 and opportunities to manipulate revenue recognition are very limited • The culture and ethical frameworks of local authorities, including Pendle, mean that all forms of fraud are seen as unacceptable	Having considered the risk factors set out in ISA240 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 and as reported in our Audit Plan, we do not consider this to be a significant risk. Whilst not a significant risk, we have performed audit procedures and testing of material revenue items. Our work has not identified any matters that would lead to a change in our risk assessment.
Expenditure In the public sector, whilst it is not a presumed significant risk, in line with the requirements of Practice Note (PN) 10: Audit of financial statements of public sector bodies in the United Kingdom - we also consider the risk of whether expenditure may be misstated due to the improper recognition of expenditure. This risk is rebuttable if the auditor concludes that there is no risk of material misstatement due to fraud relating to expenditure recognition. Based on our assessment we consider that we are able to rebut the significant risk in relation to expenditure, but will nevertheless, and in line with PN10, recognise the heighted inherent risk of 'other service expenditure' in our audit scoping and testing assessment.	In response to this risk we have: • evaluated the Council's policy for the recognition of non-pay expenditure • documented the goods received not invoiced accruals process and the processes management have in place, challenging key assumptions, the appropriateness of source data and the basis for calculations • obtained a listing from the cash book of non-pay payments made in April and May 2021 to ensure they have been charged to the appropriate year • obtained a listing from the AP system of invoices received in April and May 2021 to ensure they have been charged to the appropriate year • substantively tested a sample of year-end accounts payable and accrual balances. Our audit work identified an item that was included in both accounts payable and accounts receivable incorrectly, This was in relation to the payment of a PWLB loan and two related journals being processed separately. The error has been corrected. See appendix C for details. Our audit work to date has not identified any other issues in respect of this significant risk.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	**Commentary**
Valuation of land and buildings, including surplus assets The Council revalues its land and buildings on a rolling five-yearly basis. This valuation of £44m represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used. Surplus Assets: All surplus assets should be valued and reported at fair value under relevant accounting principles. Again, this valuation of £5m represents a significant estimate by management in the financial statements due to the size of the numbers involved compared to Council's materiality and the sensitivity of this estimate to changes in key assumptions. Our 2019/20 opinion included an emphasis of matter paragraph drawing attention to disclosures included in the financial statements of a material uncertainty attached to property valuations as at 31 March 2020 due to the ongoing nature of the Covid-19 pandemic. This paragraph did not represent a modification of our audit opinion. We therefore identified valuation of land and buildings, including investment properties, as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • Evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work • evaluated the competence, capabilities and objectivity of the valuation expert • written to the valuer to confirm the basis on which the valuations were carried out • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding • tested a sample of valuations at 31 March 2021 to understand the information and assumptions used in arriving at any revised valuations. • tested revaluations made during the year to see if they had been input correctly into the Council's asset register • reviewed whether the expert valuer has reported any material uncertainty in relation to property valuations as at 31 March 2021 and, if so, assess the impact on disclosures in the financial statements and on our audit opinion. Our audit work has identified three issues in respect of valuation of land and buildings; • assets revalued in year have a valuation date of 01/04/20 but have not been depreciated in the year. This has led to the depreciation balance being understated by £268k. The CIPFA Code of Audit Practice requires that depreciation should be applied through the year. • the valuer completes revaluations of surplus assets that fall within the 5 year cycle for valuation in the year, but the remaining surplus assets have not been revalued. The Code requires that all surplus assets are revalued on an annual basis at the year end. • the valuer values assets on a five year rolling programme, however no assessment is completed on the assets not revalued. The Council should complete there own assessment to confirm the value of assets not valued are fairly stated. We have raised audit recommendations in respect of these areas. We are satisfied that the issues above are not material to the valuation of land and buildings. Our audit work has not identified any further issues in respect of valuation of land and building.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of the Pension Fund Net 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. The pension fund net liability (£48.372m in 2020/21) is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. 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. The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation. The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable. The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Authority's pension fund net liability as a significant risk.	We have: • 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 • reviewed whether the pension fund has reported any material uncertainty in relation to investment property valuations as at 31 March 2021 and, if so, assess the impact on disclosures in the financial statements and on our audit opinion • obtained assurances from the auditor of the Lancashire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. We reviewed the assumptions used in the estimations process see Page 13 for the detailed assessment. We have found no issues with 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. Our assessment of the work of the actuary confirmed that they were competent. In the year the Council made an upfront pension payment of £4.613m to the Local Government Pension Scheme to cover payments for 2020/21 and the next two years. Our work identified the element of upfront payment relating to 2021-22 and 2022-23 has been incorrectly accounted for as a prepayment in advance rather than reducing the Pension Liability. The Council have made an corrected this in the financial statements, see Appendix C for further details.

2. Financial Statements – new issues and risks

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant deficiencies identified during the year.

Issue	Commentary	Auditor view
Recognition and Presentation of Grant Income The Council receives a number of grants and contributions and is required to follow the requirements set out in sections 2.3 and 2.6 of the Code. The main considerations are to determine whether the Council is acting as principal/ agent, and if there are any conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income. The Council also needs to assess whether grants are specific, and hence credited to service revenue accounts, or of a general or capital nature in which case they are credited to taxation and non-specific grant income	Judgement is required to determine whether the Council can be reasonably assured that the conditions of grant and contribution monies received have been met before recognising them as income in the Comprehensive Income and Expenditure Statement. Where conditions require specified expenditure to have taken place, the grant monies will not be recognised until this happens. Equally, where conditions specify that a grant or contribution must be repaid in the event of non-expenditure, the income is not recognised until the expenditure is incurred. We have performed detailed testing on a sample of grant income to agree classification and subsequent recognition in the financial statements, if accounted for on a principal or agent basis.	We have tested 32 grants with a total value of £75.495 million. We have also reviewed treatment of grants to confirm the Council has correctly determined the principal and agent approach. We have carried out a further review to confirm the correct treatment of Covid related grant income. The Council acting as an agent has received grant income of £38.057m in 2020/21 and as a principal grant income of £8.95m in relation to COVID-19 Grants. Our work has identified that Note 31 Grant Income includes grants which are allocated on the agent basis and so should not be included in this note. We also identified this income and expenditure was included in Note 27 Expenditure and Income analysed by nature. The Council has agreed to amend the notes to correct them – please see appendix C. Our audit testing has not identified any further issues.
IFRS 16 implementation Although the implementation of IFRS 16 has been delayed to 1 April 2022, audited bodies still need to include disclosure in their 2020/2021 statements to comply with the requirement of IAS 8 para 31. As a minimum, we expected audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases	Note 1 makes reference to IFRS16 and discloses the date of implementation and that there is still some uncertainty about the extent of the impact.	We are satisfied that your disclosure is consistent with the requirements of IAS 8. However, the accounts are to be amended to show the implementation date as 1 April 2022 rather than 1 April 2021 as originally shown.

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building, Community Assets and Surplus Assets valuations £12.592m	Other land and buildings comprises £24.257m of specialised assets such as Wavelengths Pool & Spa and Edge End Pavillion, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£22.353m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged Liberata to complete the valuation of properties as at 01/04/20 on a five yearly cyclical basis. 27% of total assets were revalued during 2020/21. Management have considered the year end value of non-valued properties and the potential valuation change in the assets revalued at 01/04/20. Management and the valuer hold discussions to identify assets that may have been materially impaired in the year, although they may not have been due to be revalued in year. Annual revaluations are performed across all asset categories to identify general trends in valuation movements for all asset categories. Where any significant changes are identified then all assets within the relevant category are revalued. Management's assessment of assets not revalued has identified no material change to the properties value. The total year end valuation of land and buildings was £46.607m, a net decrease of £0.305m from 2019/20 (£46.912m).	The Council's accounting policy on the valuation of land and buildings is included at Accounting Policy 16. The values in the valuation report have been used to inform the measurement of property assets at valuation in the financial statements. In understanding how management have calculated the valuations we have: • assessed the qualifications, skills and experience of the valuer and determined the service to be appropriate. • ensured the underlying information and sensitivities used to determine the estimate were considered to be complete and accurate. • confirmed the valuer has prepared their valuations in accordance with the RICS Valuation – Global Standards using the information that was available to them at the valuation date in deriving their estimates. • uplifted assets not-valued in year using Gerald Eve indices and considered local market factors to support management's assessment that there has been no material changes to the valuation of land and buildings not valued in year. • reviewed the level of disclosure in the financial statements to confirm it is appropriate. Our audit work has not identified any issues in respect of this significant estimate. We would recommend that valuation of land and buildings is undertaken as at 31 March of the year of the accounts rather than 1 April. There is a risk that valuations undertaken as at 1 April could move by a material amount if there were any significant fluctuations in the market over the year.	● **[Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious**

Assessment

- ● Dark purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate | **Summary of management's approach** | **Audit Comments** | **Assessment**

Net pension liability – £48.372m

The Council's net pension liability at 31 March 2021 is £48m (PY £39.8m) comprising the Local Government Pension Fund and unfunded defined benefit pension scheme obligations. The Council uses Mercers to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years.

The latest full actuarial valuation was completed in 2019. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £7.871m net actuarial loss during 2020/21.

The Council's Actuary, Mercer Ltd, have calculated some approximate effects of the costs of extending the transitional protections to younger members. The costings of the potential effect of McCloud at 31st March 2021, based on individual member data as at 2019 actuarial valuation and the results of those calculations based on the IAS19 assumptions have been included in the net pension liabilities on the Council's Balance Sheet.

In understanding how management has calculated the estimate of the net pension liability we have:

- assessed management's expert;
- assessed actuary's approach taken, detail work undertaken to confirm reasonableness of approach;
- used PwC as auditors expert to assess actuary and assumptions made by actuary as outlined in the table below;

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.10%	2.10% – 2.20%	●
Pension increase rate	2.70%	2.70%	●
Salary growth	4.20%	3.95% - 4.20%	●
Life expectancy – Males currently aged 45 / 65	Male Pensioner 22.4 years Male non pensioner 23.9 years	Male Pensioner 20.9 - 23.2 years Male non pensioner 22.5 - 24.7 years	●
Life expectancy – Females currently aged 45 / 65	Female Pensioner 25.1 years Female non pensioner 26.9 years	Female Pensioner 24.0 - 25.8 years Female non pensioner 25.9 - 27.7 years	●

- assessed the completeness and accuracy of the underlying information used to determine the estimate;
- reviewed the impact of any changes to valuation method;
- assessed the reasonableness of the Council's share of LPS pension assets;
- assessed the reasonableness of the movement in the estimate;
- reviewed the adequacy of disclosure of estimate in the financial statements.

Our audit work has not identified any issues in respect of this significant estimate.

●

[Light Purple]

We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Assessment

- ● Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Provisions for NNDR appeals - £1.98m	The Council are responsible for repaying a proportion of successful rateable value appeals. Management uses an external organisation, Analyse Local, to provide valuation data and management calculate the level of provision required. Pendle's calculation is based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates. There has only been a minimal increase in the provision in 2020/21.	To review the estimate, we have; • assessed management's expert; • reviewed the appropriateness of the underlying information used to determine the estimate • reviewed the impact of any changes to the valuation method • assessed the reasonableness of the estimate • reviewed the adequacy of disclosure of estimate in the financial statements Our audit work to date has not identified any issues in respect of this significant estimate.	● [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Assessment

- ● Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Covid-19 Grants Income Recognition and Presentation – £8.950m Principal £38.057m Agent Due to the Covid-19 pandemic there has been a significant increase in the level of Covid related grant funding with associated complexity and management judgement required. This has comprised a mix of discretionary and non-discretionary schemes.	Management take into account three main considerations in accounting for grants: • whether the Council is acting as the principal or agent and particularly whether it controls the goods or services before they transfer to the service recipient. Management's assessment needs to consider all relevant factors such as who bears credit risk and responsibility for any overpayments, who determines the amount, who sets the criteria for entitlement, who designs the scheme and whether there are discretionary elements. • whether there are conditions outstanding (as distinct from restrictions) that would require the grant to be recognised as receipt in advance, otherwise grant should be recognised as income. • whether the grant is a specific or non-specific grant. General un-ringfenced grants are disclosed on the face of the CIES, whereas ringfenced grants are required to be credited to service revenue accounts. There may be significant judgements over the accounting treatment. Different conclusions may be reached by authorities depending on how they have applied any discretion in administering the schemes - are these judgements reasonable and sufficiently disclosed to meet the requirements of IAS 1:125.	We have tested a sample of grants received to confirm the following: • whether the Council is acting as the principal or agent which would determine whether the authority recognises the grant at all; • assessed the completeness and accuracy of the underlying information used to determine whether there are conditions outstanding (as distinct from restrictions) that would determine whether the grant is recognised as a receipt in advance or income; • assessed the impact for grants received, whether the grant is specific or non specific grant (or whether it is a capital grant) – which impacts on where the grant is presented in the CIES; • reviewed the adequacy of disclosure of judgement in the financial statements. Our work has identified that Note 31 Grant Income includes grants which are allocated on the agent basis and so should not be included in this not. We also identified this income and expenditure was included in Note 27 Expenditure and Income analysed by nature. The Council has agreed to amend the notes to correct them – please see appendix C. Our audit testing has not identified any other issues.	● [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Assessment

●	Dark Purple	We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
●	Blue	We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
●	Grey	We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
●	Light Purple	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - Internal Control

Assessment	Issue and risk	Recommendations
●	Our system documentation on journals identified an issue where accountancy staff are able to authorise their own journals. However, a compensating control was in place whereby the Financial Services Managers retrospectively reviewed all journals on a monthly basis. However, our testing on journals identified this control was not implemented from November 2020 onwards.	The monthly control should be in place whereby journals are reviewed by the Financial Services Manager and documentation should be maintained to evidence this. **Management response** We acknowledge the identified issue, the shift to remote working as well as changes in finance officers meant that we were unable to evidence monthly review post-November. The annual review by the previous Financial Services Manager was undertaken as part of the final accounts process. We agree with the recommendation, and have implemented monthly reviews by the Financial Services Manager, with necessary evidenced documentation maintained on the network drives rather than in email folders.

Assessment

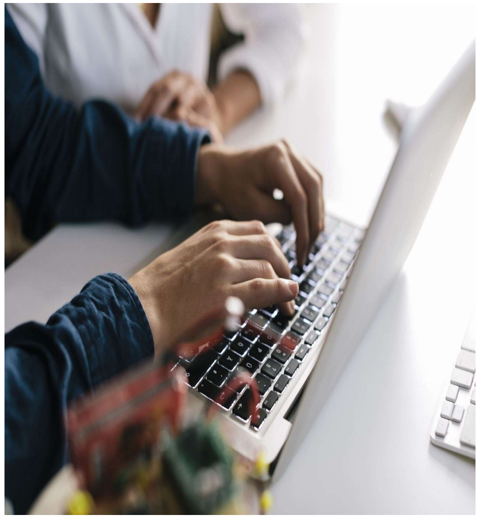
● Significant deficiency – risk of significant misstatement
● Deficiency – risk of inconsequential misstatement

2. Financial Statements - 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
Matters in relation to fraud	We have previously discussed the risk of fraud with the Accounts and Audit Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	Our work identified one member had not disclosed interest to a related party. The related party was already disclosed in the accounts and the note was amended to include this member. We are not aware of any other related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council, which is included in the Accounts and Audit Committee papers. We have requested a specific representation in relation to the valuation of land and buildings which is item xv.

2. Financial Statements - other communication requirements



Issue	Commentary
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the bank and investment bodies as well as long term debtors. This permission was granted and the requests were sent.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review of accounting policies identified the accounting policy in relation to depreciation does not set out the requirement to depreciate in the year of acquisition and so is not in line with Code requirements. The policy has been amended to comply with the Code. Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided.

2. Financial Statements - other communication requirements

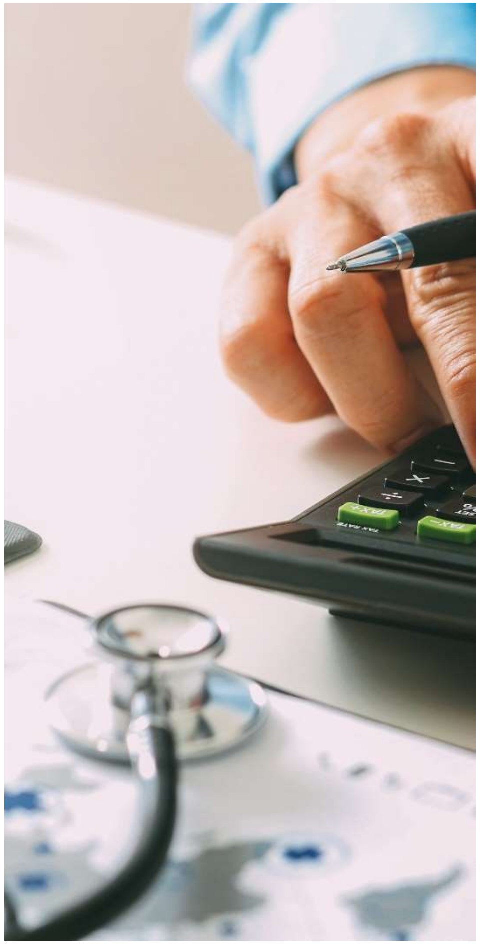
Our responsibility

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).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Council and the environment in which it operates • the Council's financial reporting framework • the Council's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. Inconsistencies have been identified but have been adequately rectified by management. We plan to issue an unmodified opinion in this respect – refer to appendix E
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. We have nothing to report on these matters.



2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Specified procedures for Whole of Government Accounts	We are 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. The requirements in respect of this work have not yet been confirmed by the National Audit Office. In previous years the work has not been required as the Council does not exceed the threshold. We expect this to be the case this year.
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2020/21 audit of Pendle Borough Council in the audit report, as detailed in Appendix E, due to incomplete VFM work.

3. Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria.
- Auditors undertaking sufficient analysis on the Council's VFM arrangements to arrive at far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

3. VFM - our procedures and conclusions

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor’s Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix G to this report. We expect to issue our Auditor’s Annual Report by April 2022. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Since issuing our audit plan we have identified the risks set out in the table below. Our work on these risks are underway and an update is set out below.

Risk of significant weakness	Work performed to date
Financial Sustainability	Our work is ongoing in this area and will be reported in the Annual Audit Report, the Medium Term Financial Plan does show there is a cumulative £3m deficit for the 4 year period to 31/3/25. These are savings which the Council will need to identify over the years. However the Council has a General Fund balance of £13.4m of which £12.4m relates to earmarked reserves and the remaining £1m is uncommitted. Therefore the Council may be faced with making key decisions on finances over the following few years. At this stage no significant risk has been identified although further work in this area will be completed.
Governance	Our work in this area is ongoing and will be reported in the Annual Audit Report. We note the Council and in particular the finance team have had a number of changes over the past 9 months. This has included a change in Chief Executive, around 4 changes in s151 officer as well as changes in the Financial Services Manager and Capital Accountant. Therefore we have identified this as a potential significant weakness. We will complete further work in this area to assess the potential impact, if any, on Council governance and decision making.

4. 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 consulted our Ethics team when, Ian Pinches, Financial Services Manager, was recruited to the Council, as he had previously worked at Grant Thornton. Ethics have confirmed they do not believe this appointment creates a threat to objectivity and integrity or compromise independence for the audit. It was also noted that Ian was outside the period (1 year) considered by the FRC's ethical standard to compromise independence in these circumstances.

We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, 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 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 May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

4. Independence and ethics

Audit and 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 following non-audit services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing Benefit Claim	11,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £11,500 in comparison to the total fee for the audit of £53,685 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors.   All services have been approved by the Accounts and Audit Committee. None of the services provided are subject to contingent fees.

Appendices

A. Action plan – Audit of Financial Statements

We have identified 8 recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2021/22 audit. 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.

Assessment	Issue and risk	Recommendations
● Medium	**Surplus Assets** The Code requires Surplus Assets to be stated at fair value therefore these assets are required to be revalued on an annual basis. The Council has revalued one surplus asset and used that as a basis to assess the value of other surplus assets. However this is not in line with Code requirements and there is a risk that other surplus asset valuation movements may not necessarily be the same as the asset revalued.	Surplus assets should be revalued on an annual basis. **Management response** Management has agreed to implement necessary review of Code requirements and update the valuation policy as necessary. While this does not in management's opinion present a material risk, we will do so as a matter of urgency.
● Medium	**Journal Authorisation** Our system documentation on journals identified an issue where accountancy staff are able to authorise their own journals. However, a compensating control was in place whereby the Financial Services Managers retrospectively reviewed all journals on a monthly basis. However, our testing on journals identified this control was not implemented from November 2020 onwards.	All journals should be reviewed by management and the control log maintained. **Management response** As noted on Page 16, management have accepted and implemented this recommendation.
● High	**Revaluation of Assets** Assets are revalued as at the 1 April but we would recommend that valuation of land and buildings is undertaken as at 31 March of the year of the accounts. There is a risk that valuations undertaken as at 1 April could move by a material amount if there were any significant fluctuations in the market over the year.	Assets should be revalued as at the 31 March. **Management response** Management will discuss with our partners responsible for valuation over changing the valuation date within the currently in-place arrangement, and how soon this is practicable.
● High	**Assets not revalued** Assets are revalued on a 5 year rolling program however no further work has been completed on assets not revalued. Management should complete their own assessment on these assets to confirm the value has not been materially changed.	Assets should complete an assessment on assets not revalued as at the 31 March. **Management response** Management will discuss with Partners responsible for valuation the review period for high value assets and those assets more likely to change in value over a 5 year period (maximum allowable under CIPFA code).

Controls

- ● High – Significant effect on financial statements
- ● Medium – Limited Effect on financial statements
- ● Low – Best practice

A. Action plan – Audit of Financial Statements - continued

Assessment	Issue and risk	Recommendations
● Low	**Depreciation of Additions** The current policy is to depreciate assets the year after acquisition however the Code requires assets to be depreciated as and when they are put into use. The current depreciation policy does not comply with Code requirements and there is a risk that over time depreciation will become increasingly misstated. We are satisfied that the impact in this year is not material.	Depreciation should be completed on additions as they are brought into use. **Management response** Management has agreed to implement necessary review of Code requirements and update the depreciation policies as necessary. While this does not in management's opinion present a material risk, we will do so as a matter of urgency.
● Low	**Depreciation of Assets Revalued in Year** Assets revalued in year have a valuation date of 01/04/20 but have not been depreciated in the year. As assets are revalued as at the start of the year depreciation should be applied for the remainder of the year. The current depreciation policy does not comply with Code requirements and there is a risk that over time depreciation will become increasingly misstated. We are satisfied that the impact in this year is not material.	Depreciation for the year should be applied to all assets revalued at the beginning of the year **Management response** Management has agreed to implement necessary review of Code requirements and update the depreciation policies as necessary. While this does not in management's opinion present a material risk, we will do so as a matter of urgency.
● Low	**Aged Debtors** Our testing identified that there was one debtor balance (£377) included in the accounts which had been a debtor since 2005. As it seems unlikely this will now be collected the Council should consider writing off this debt and reviewing any similar long standing debtor balances.	Debtors balance should be reviewed and aged debtors should be written off **Management response** We will include this in consideration for future write offs with relevant officers responsible for debt collection and revenues.
● Low	**Related Party Transactions** Our testing identified that 3 councillors answered No to the questions on association with any body, However the companies search identified that this was not the case.	Members should be further reminded of the requirements and their responsibilities to make these disclosures. **Management response** Management will remind Members of their responsibilities in respect of Related Party Transactions and for the need to make accurate disclosures.

Controls

- ● High – Significant effect on financial statements
- ● Medium – Limited Effect on financial statements
- ● Low – Best practice

B. Follow up of prior year recommendations

We identified the following issues in the audit of Pendle Borough Council's 2019/20 financial statements, which resulted in one recommendation being reported in our 2019/20 Audit Findings report. We have followed up on the implementation of our recommendations and note it is still to be addressed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	**Surplus Assets** Surplus Assets are stated at fair value therefore should be reassessed on an annual basis.	The valuer revalued one asset and used this as a basis of valuation on the other surplus assets. However, the code requires all surplus assets to be revalued each year. Management response Management accept this and are working with the auditors and our valuation expert to ensure that our processes are Code compliant and what is possible within our current framework

Assessment

✓ Action completed

X Not yet addressed

C. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2021.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
The council incorrectly included internal market recharges of £14.4m within the Net Cost of Services. This overstated the gross expenditure and gross income balances.	Cr Gross Expenditure -14,391 Cr Gross Income -14,391	Nil	Nil
In the year the Council made a repayment of a PWLB loan of £1.3m. This was incorrectly included in both the Debtor and Creditor balance.	Nil	Cr Short Term Debtors -1,340 Cr Short term Creditors -1,340	Nil
The Council made an upfront pension payment of £4.613m to the LGPS in 2020/21 to cover payments for 2020/21 and the next two years. The element of upfront payment relating to 2021-22 and 2022-23 had been incorrectly accounted for as a prepayment in advance rather than reducing the Pension Liability.	Nil	Dr Pension Liability £3,136 Cr Payments in advance £3,136	Nil
Overall impact	Nil	Nil	Nil

C. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Misclassification 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.

Disclosure omission	Auditor recommendations	Adjusted?
Cash Flow Statement	The amortisation and impairment costs have been incorrectly presented within the Cash Flow Statement as the figures were transposed within the note. The figures have been amended to the correct values.	✓
Note 23 Cash Flow Statement – Investing Activities	Other payments for investing activities figure was understated by £5k and did not reconcile to Note 33 Capital Expenditure and Capital Financing. This has been amended.	✓
Note 27 Expenditure and income analysed by nature	'Government grants and contributions' and 'Other Expenditure' lines incorrectly included income and costs respectively in relation to COVID grants where the Council acted as agent. Where the Council acts as agent, the income and expenditure should not be recognised in the Council's accounts. 'Other Service Expenses' and 'Fees and Charges and 'Other Service Income' were amended as they included recharges of £138k 'Expenditure Associated with Council Tax/NNDR' and 'Income from Council Tax/NNDR' were amended to include the full income and expenditure costs. The note has been amended to correct this.	✓
Note 30 External Audit Costs	The audit fee note has been amended to remove transactions that were not related to external audit fees which were incorrectly included in this note. As well as this the note was amended to remove additional 2019/20 audit fee which was included in the previous year and the additional fee for 2020/21 was included in the note.	✓
Note 31 Grant Income	As per note 27 above, this note also includes grants where the Council is the agent.	✓

C. Audit Adjustments (Cont)

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Disclosure omission	Auditor recommendations	Adjusted?
Narrative Report	Various figure in the report were amended to ensure consistency with other areas of the accounts.	✓
Note 32 Related Parties	The note was amended to include disclosure relating to a member interest which was not previously disclosed for this member.	✓
Accounting Policies	The current accounting policy in relation to depreciation does not set out the requirement to depreciate in the year of acquisition and so is not in line with Code requirements. The policy should be updated to ensure compliance with the Code.	✓

C. Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2020/21 audit which have not been made within the final set of financial statements. The Accounts and Audit Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Assets revalued in year have not been depreciated in the year.	268	268	268	The amounts involved are not material
Assets purchased in the year should be depreciated when they are brought into use.	164	164	164	The amounts involved are not material
Overall impact	£432	£432	£432	

D. Fees

We confirm below our final fees charged for the audit and provision of non-audit services.

Audit fees	Proposed fee	Final fee
Council Audit	53,685	TBC
Total audit fees (excluding VAT)	£53,685	TBC

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services – Certification of Housing Benefit Subsidy Return	11,500	TBC
Total non-audit fees (excluding VAT)	£11,500	TBC

Details of variations in final fees from the proposed fee per the audit plan

The fees reconcile to the financial statements by:

• fees per financial statements	78,585
• Additional fee for 2019/20	(13,400)
• HBAP fee for 2020/21	(11,500)
• total fees as aside	53,685

E. Audit opinion - draft

Our audit opinion is included below.

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

Independent auditor's report to the members of Pendle Borough Council

Report on the Audit of the Financial Statements

Opinion on financial statements

We have audited the financial statements of Pendle Borough Council (the 'Authority') for the year ended 31 March 2021, which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. 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 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2021 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Chief Finance Officer's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority to cease to continue as a going concern.

E. Audit opinion (continued)

In our evaluation of the Chief Finance Officer's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21 that the Authority's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority and the Authority's disclosures over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Chief Finance Officer with respect to going concern are described in the 'Responsibilities of the Authority, the Chief Finance Officer and Those Charged with Governance for the financial statements' section of this report.

Other information

The Chief Finance Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements, and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;

E. Audit opinion (continued)

- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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

Responsibilities of the Authority, the Chief Finance Officer and Those Charged with Governance for the financial statements

As explained in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Finance Officer. The Chief Finance Officer 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 2020/21, for being satisfied that they give a true and fair view, and for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Accounts and Audit Committee is Those Charged with Governance. Those Charged with Governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Authority and determined that the most significant, which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Local Government Act 2003, the Local Government Act 1972, the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992) and the Local Government Finance Act 2012
- We enquired of senior officers and the Accounts and Audit Committee, concerning the Authority's policies and procedures relating to:
  - the identification, evaluation and compliance with laws and regulations;
  - the detection and response to the risks of fraud; and
  - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

E. Audit opinion (continued)

- We enquired of senior officers, internal audit and the Accounts and Audit Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Authority's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to management override of control, in particular journals, management estimates and transactions outside the course of business
- Our audit procedures involved:
  - evaluation of the design effectiveness of controls that the Chief Finance Officer has in place to prevent and detect fraud;
  - journal entry testing, with a focus on the material year end transactions and manual journals posted during the year with high risk characteristics;
  - challenging assumptions and judgements made by management in its significant accounting estimates in respect of land and buildings and defined benefit pensions liability valuations;
  - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to land and buildings and defined benefit pensions liability valuations.
- Assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's.
  - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
  - knowledge of the local government sector
  - understanding of the legal and regulatory requirements specific to the Authority including:
    - **the provisions of the applicable legislation**
    - **guidance issued by CIPFA, LASAAC and SOLACE**
    - **the applicable statutory provisions.**
- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - the Authority's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
  - the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

E. Audit opinion (continued)

Report on other legal and regulatory requirements – the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources

Matter on which we are required to report by exception – the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

Our work on the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources is not yet complete. The outcome of our work will be reported in our commentary on the Authority’s arrangements in our Auditor’s Annual Report. If we identify any significant weaknesses in these arrangements, these will be reported by exception in a further auditor’s report. We are satisfied that this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2021.

Responsibilities of the Authority

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

Auditor’s responsibilities for the review of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 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.

We undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2021. This guidance sets out the arrangements that fall within the scope of ‘proper arrangements’. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor’s Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

Report on other legal and regulatory requirements – Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for Pendle Borough Council for the year ended 31 March 2021 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed:

- our work on the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources and issued our Auditor’s Annual Report’
- the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2021.

We are satisfied that this work does not have a material effect on the financial statements.

E. Audit opinion (continued)

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority’s members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Signature:

Name Georgia Jones, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

Liverpool

Date:

F. Management Letter of Representation

[LETTER TO BE WRITTEN ON CLIENT HEADED PAPER]

Grant Thornton UK LLP

[Date] – {TO BE DATED SAME DATE AS DATE OF AUDIT OPINION]

Dear Sirs

Pendle Borough Council
Financial Statements for the year ended 31 March 2021

This representation letter is provided in connection with the audit of the financial statements of Pendle Borough Council for the year ended 31 March 2021 for the purpose of expressing an opinion as to whether the Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards, and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

i. We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

ii. We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.

iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include land and buildings valuations, pension fund liability and provisions. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

F. Management Letter of Representation (continued)

vii. Except as disclosed in the financial statements:

  a. there are no unrecorded liabilities, actual or contingent

  b. none of the assets of the Council has been assigned, pledged or mortgaged

  c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The Council's financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report. We have not adjusted the financial statements for these misstatements brought to our attention as *[they are immaterial to the results of the Council and its financial position at the year-end OR list reasons]*. The financial statements are free of material misstatements, including omissions.

xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xiv. We have updated our going concern assessment and cashflow forecasts in light of the Covid-19 pandemic. We continue to believe that the Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that :

  a. the nature of the Council means that, notwithstanding any intention to liquidate the Council or cease its operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements

  b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and

  c. the Council's system of internal control has not identified any events or conditions relevant to going concern.

  We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements

xv. The valuation of land and buildings for the year of the accounts is undertaken on 1 April of that year. We have assessed whether there has been any material movement in the valuation between 1 April and the year end and are satisfied valuations remain appropriate and are not materially misstated within the financial statements.

Information Provided

xvi. We have provided you with:

  a. access to all information of which we are aware that is relevant to the preparation of the Council's financial statements such as records, documentation and other matters;

F. Management Letter of Representation (continued)

a. additional information that you have requested from us for the purpose of your audit; and

b. access to persons within the Council via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. from whom you determined it necessary to obtain audit evidence.

xvii. We have communicated to you all deficiencies in internal control of which management is aware.

xviii. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xix. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xx. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:

a. management;

b. employees who have significant roles in internal control; or

c. others where the fraud could have a material effect on the financial statements.

xxi. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

xxii. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxiii. We have disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which we are aware.

xxiv. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

xxv. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

xxvi. The disclosures within the Narrative Report fairly reflect our understanding of the Council's financial and operating performance over the period covered by the Council’s financial statements.

Approval

The approval of this letter of representation was minuted by the Council’s Accounts and Audit Committee at its meeting on 19 October 2021.

Yours faithfully

Name…………………………….

Position………………………….

Date…………………………….

Signed on behalf of the Council

G. Audit letter in respect of delayed VFM work

Our ref: VFM delay

Chair of Accounts and Audit Committee
Pendle Borough Council
Cllr D Cockburn-Price
Sent by email
29 September 2021

Dear David,

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies we are required to issue our Auditor's Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation.

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our report no later than 30 December 2021.

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours faithfully

Georgia Jones

Director

Grant Thornton

grantthornton.co.uk