

# The Audit Findings for Pendle Borough Council

**Year ended 31 March 2022**

October 2023



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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 the Accounts and Audit Committee.

*Georgia Jones*

Name : Georgia Jones

For Grant Thornton UK LLP

Date : October 2023

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.

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# 1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Pendle Borough Council's ('the Council') financial statements for the year ended 31 March 2022 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 on site and remotely during December 2022 to September 2023. Our findings are summarised on pages 5 to 20. We have identified 7 adjustments to the financial statements that have increased the Council's Comprehensive Income and Expenditure Statement by £7.186 million. This is an increase in the Council's surplus. 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.

Our work is substantially complete and there are no matters of which we are currently aware that would require modification of our audit opinion Appendix E or material changes to the financial statements, subject to the following outstanding matters;

- receipt of management representation letter – see appendix F; and
- review of the final set of financial statements.

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.

# 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. Given that we are into the 2022-23 audit year we will complete joint reporting of VFM work for 2021-22 and 2022-23. An audit letter explaining the reasons for the delay is attached in Appendix G to this report.

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. We have not identified any new risks at this time, however the risks and weaknesses identified in 2020-21 in relation to financial sustainability and governance continue into 2021-22 and 2022-23.. We have performed initial procedures in respect of this risk.

## 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.

## 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;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

### Conclusion

We have partially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the completion of outstanding work. These outstanding items include:

Responses to queries in relation:

- receipt of management representation letter – see appendix F; and
- review of the final set of financial statements.

## 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 have revised materiality 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.

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

|   | Planning<br>Amount (£) | Post Statements<br>Amount (£) | Qualitative factors considered  |
|---|------------------------|-------------------------------|---|
| Materiality for the financial statements    | 932,437                | 830,927                       | We have used planning materiality which equates to 1.85% of your gross operating expenditure for 2020/21 year. On receipt of the draft financial statements for 2021/22 we deemed it appropriate to revise the materiality figure as the gross expenditure figure had changed significantly. This level 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                     | 699,327                | 540,103                       | This is based on specific risks and sensitivities at the Council, such as the lack of deficiencies in control environment and quality of financial statements in prior years.   |
| Trivial matters                             | 47,000                 | 41,500                        | This is the threshold for matters that are clearly inconsequential, whether taken individually or in aggregate.   |
| Materiality for senior officer remuneration | 20,000                 | 20,000                        | This is due to its sensitive nature, with the value based on the salary bandings disclosed.   |



## 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
- evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions

Our audit work on journals is complete and has not identified any issues in respect of management override of controls.

We identified a change to the Property, Plant and Equipment accounting policy in regards to the di-minimis threshold. This change was made to ensure the Fixed Asset Register was more in line with the valuers system. See page 9 or further details.



# 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

#### 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 heightened inherent risk of 'other service expenditure' in our audit scoping and testing assessment.

Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, as set out aside we determined that the risk of fraud arising from revenue recognition can be rebutted. 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.

On receipt of the accounts, we identified the Council had not removed internal charges and had not removed the Covid grants where the Council are acting as an agent. This was identified at an early stage and revised accounts provided from which we have completed our testing. Further details of the amendments can be seen in Appendix C.

Our audit work is complete and has not identified any errors or any matters that would lead to a change in our risk 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, May and June 2022 to ensure they have been charged to the appropriate year
- obtained a listing from the Accounts Payable system of invoices received in April, May and June 2022 to ensure they have been charged to the appropriate year
- substantively tested a sample of year-end accounts payable and accrual balances.

Our testing in accounts payable identified one error where the Council accrued for £66k in relation to Cyber Resilience Funding. However, this amount was not committed and the budget should have been carried forward. Therefore, the accounts are overstated by £66k and this has been recorded in Appendix C.

Our audit work is complete and has not identified any further errors or any matters that would lead to a change in our risk assessment.

## 2. Financial Statements - Significant risks

### Risks identified in our Audit Plan

### Commentary

#### Valuation of land and buildings and surplus assets

The Council revalues its land and buildings on a five-yearly basis. This valuation of £43m represents a significant estimate by management in the financial statements. In addition, the year-end valuation of land and buildings is sensitive to changes in assumptions and market conditions and so is a key estimate by management.

We have identified the valuation of land and buildings and surplus assets as a significant risk.

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 2022 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 2022 and, if so, assess the impact on disclosures in the financial statements and on our audit opinion.

Our audit work has identified the following issues in respect of valuation of land and buildings;

£288,849 amount of assets were not previously included in the property plant and equipment (PPE) note as they were individually de-minimis. The Council has changed their accounting policy in 2021-22 to remove the de-minimis limit and now includes all assets in the PPE note. The accounting policy in relation to PPE had not been amended in the financial statements but will now be amended to remove the reference to de-minimis level - see Appendix C. Our work has been completed. We tested a sample of items to confirm they have been valued correctly, no issues have been identified.

Whilst reconciling the revaluation disclosure in Note 11, we identified that this does not agree to the revalued assets on Techforge, having a difference of £38k. This has been amended by the Council. See Appendix C for further details.

Whilst completing work on the assets not revalued we reviewed the details on the valuers system 'Techforge'. Here we identified a difference of £868,017 between Techforge and the Fixed Asset Register. Below are the result of our procedure:

- £472,547 relates to assets which have been disposed/transferred/sold and have been removed from the fixed asset register;
- £395,469 relates to assets which have been merged to other assets, hence duplicated and have been removed from the fixed asset register.

We also identified the de-minimis assets now brought in were not depreciated, therefore an adjustment of £4k was made to the property, plant and equipment balance.

As a result of the work completed property, plant and equipment was overstated by £872,000. This has been amended.

Our work on intangible assets identified that the Council does not perform any impairment analysis, this should be completed on an annual basis. See recommendation on page 27. Moreover, as with property, plant and equipment, the Council applied a de-minimis value in amortising the intangible assets where if an assets NBV was at the de-minimis limit of £5k the asset would not be depreciated. The Council has now changed the accounting policy to remove the de-minimis limit but had no applied this to intangible assets which were therefore overstated by £23k. This has been amended.

## 2. Financial Statements - Significant risks

### Risks identified in our Audit Plan

### Commentary

#### Valuation of land and buildings and surplus assets

The Council revalues its land and buildings on a five-yearly basis, with a desktop valuation in intervening years. This valuation of £43m represents a significant estimate by management in the financial statements. In addition, the year-end valuation of land and buildings is sensitive to changes in assumptions and market conditions and so is a key estimate by management.

We have identified the valuation of land and buildings and surplus assets as a significant risk.

(continued)

We also note a number of recommendation raised in the previous year are still to be implemented. These include:

- assets revalued in year have a valuation date of 01/04/21 but have not been depreciated in the year. The CIPFA Code of Audit Practice requires that depreciation should be applied through the year. This has led to the depreciation balance being understated, work is underway to corroborate the amount.
- the Code requires that all surplus assets are revalued on an annual basis at the year end. The Council have revalued £2.509 million as part of the five year revaluation program, leaving a difference of £0.303 million not revalued.
- 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 again raised audit recommendations in respect of these areas.

Our audit work is complete and has not identified any further issues in respect of valuation of land and buildings.



## 2. Financial Statements - Significant risks

### Risks identified in our Audit Plan

### Commentary

#### Valuation of pension fund net liability

The Council'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 is considered a significant estimate due to the size of the numbers involved (£37m in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions.

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. In particular the discount and inflation rates, where our consulting actuary has indicated that a 0.1% change in these two assumptions would have approximately 2% effect on the 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 Council'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
- undertaken 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 2022 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, for the current year. We have identified an agreed amendment in 2020/21 was reflected in one note. This amendment has been made see Appendix C for further details.

Our assessment of the work of the actuary confirmed that they were competent.

We have received the letter of assurances from the auditor's of Lancashire Pension Fund.

In 2020/21 the Council made an upfront pension payment of £4.613m to the Local Government Pension Scheme to cover payments for 2020/21 and the following two years. This was initially incorrectly accounted for in 2020/21. and the Council then corrected this in the final financial statements for 2020/21. However in 2021/22 the Council again incorrectly accounted for the payment in relation to 2022/23 as a payment in advance rather than reducing the Pension Liability. The Council have corrected this in the financial statements, see Appendix C for further details.

Following the triennial revaluation of the pension fund as at 31 March 2022, the Council requested an updated IAS 19 schedule. This was received and indicated a decrease in liability of £8.090 million. The Council have amended the accounts for this and we have completed additional work on this. We noted the actuary has updated the pay growth assumptions in the revised IAS 19 report, however this is not consistent with our auditors experts expectation. Therefore, we have identified this decrease of 0.1% as an unadjusted misstatement see Appendix C for further details.

The Council have amended the accounts to include disclosure on the basis for estimating assets and liabilities. We have received an updated letter of assurance from the auditor of Lancashire Pension Fund. Our audit work is complete and has not identified any further issues in respect of valuation of pension net liability

## 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 valuations – £17.360m | <p>Other land and buildings comprises (£6.212m) of specialised assets such as leisure centres, bowling greens and recreation areas, 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 (£11.148m) 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 1<sup>st</sup> April 2021 on a five year cyclical basis. 38% of assets were revalued during 2021/22.</p> <p>Management have considered the year end value of non-valued properties and the potential valuation change in the assets revalued at 01/04/21. 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. However as in previous years these discussions have not been documented and cannot be verified.</p> <p>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 have advised they have made an assessment of assets not revalued and identified no material change to the properties value. As mentioned above and in the previous year these discussions have not been documented and cannot be verified.</p> <p>The total year end valuation of land and buildings was £45.465m, a net decrease of £1.010m from 2020/21 (£46.475m).</p> | <p>We have reviewed and assessed the details supporting the estimates and judgements in this area, considering;</p> <ul style="list-style-type: none"> <li>Revised ISA540 requirements in guidance note;</li> <li>Assessment of management's expert, your external valuer;</li> <li>Completeness and accuracy of the underlying information used to determine the estimate</li> <li>Appropriateness of any alternative site assumptions</li> <li>Impact of any changes to valuation method</li> <li>Consistency of estimate against near neighbours/GE report</li> <li>Reasonableness of increase/decrease in estimate</li> <li>Adequacy of disclosure of estimate in the financial statements</li> </ul> <p>The valuation method remains consistent with the prior year.</p> <p>The valuer has prepared their valuations in accordance with RICS Valuation – Global Standards. However we would reiterate the valuations should be completed as at the 31<sup>st</sup> March.</p> | <p>[Light Purple]<br/>We consider management's process is appropriate and key assumptions are neither optimistic or cautious</p> |

### Assessment

- [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 |               |           |            |               |      |          |   |                       |      |          |   |               |      |           |   |  |                 |                      |   |  |                 |                      |   |  |
|--|--|--|------------|---------------|-----------|------------|---------------|------|----------|---|-----------------------|------|----------|---|---------------|------|-----------|---|--|-----------------|----------------------|---|--|-----------------|----------------------|---|--|
| <b>Net pension liability – £37.047m</b>          | <p>The Council's total net pension liability at 31 March 2022 is £37.047m (PY £45.236m) comprising the Lancashire 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.</p> <p>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 £12.652m net actuarial gain during 2021/22.</p> | <p>We have:</p> <ul style="list-style-type: none"> <li>Assessed management's expert</li> <li>Assessed of actuary's approach taken, detail work undertaken to confirm reasonableness of approach</li> </ul> <p>We have no concerns over the competence, capabilities and objectivity of the actuary used by the Authority.</p> <p>We have used the work of PwC, as auditors expert, to assess the actuary and assumptions made by the actuary – See below considerations of key assumptions in your pension fund valuation:</p> <table border="1"> <thead> <tr> <th>Assumption</th><th>Actuary Value</th><th>PwC range</th><th>Assessment</th></tr> </thead> <tbody> <tr> <td>Discount rate</td><td>2.8%</td><td>2.7-2.8%</td><td>●</td></tr> <tr> <td>Pension increase rate</td><td>3.4%</td><td>3.0-3.5%</td><td>●</td></tr> <tr> <td>Salary growth</td><td>4.8%</td><td>4.25-5.0%</td><td>●</td></tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td><td>22.6/21.4 Years</td><td>22.4-24.3/ 21.0-22.6</td><td>●</td></tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td><td>25.5/23.7 Years</td><td>25.3-27.5/ 23.5-24.7</td><td>●</td></tr> </tbody> </table> <ul style="list-style-type: none"> <li>Assessed the completeness and accuracy of the underlying information used to determine the estimate</li> <li>Reviewed the impact of any changes to valuation method</li> <li>Assessed the reasonableness of the Council's share of LPS pension assets.</li> <li>Assessed the reasonableness of an increase/decrease in estimate</li> <li>Reviewed the adequacy of disclosure of estimate in the financial statements</li> </ul> <p>Our audit work has not identified any issues in respect of this significant estimate</p> | Assumption | Actuary Value | PwC range | Assessment | Discount rate | 2.8% | 2.7-2.8% | ● | Pension increase rate | 3.4% | 3.0-3.5% | ● | Salary growth | 4.8% | 4.25-5.0% | ● | Life expectancy – Males currently aged 45 / 65 | 22.6/21.4 Years | 22.4-24.3/ 21.0-22.6 | ● | Life expectancy – Females currently aged 45 / 65 | 25.5/23.7 Years | 25.3-27.5/ 23.5-24.7 | ● | <p>[Light Purple]<br/>We consider management's process is appropriate and key assumptions are neither optimistic or cautious</p> |
| Assumption                                       | Actuary Value  | PwC range  | Assessment |               |           |            |               |      |          |   |                       |      |          |   |               |      |           |   |  |                 |                      |   |  |                 |                      |   |  |
| Discount rate                                    | 2.8%   | 2.7-2.8%   | ●          |               |           |            |               |      |          |   |                       |      |          |   |               |      |           |   |  |                 |                      |   |  |                 |                      |   |  |
| Pension increase rate                            | 3.4%   | 3.0-3.5%   | ●          |               |           |            |               |      |          |   |                       |      |          |   |               |      |           |   |  |                 |                      |   |  |                 |                      |   |  |
| Salary growth                                    | 4.8%   | 4.25-5.0%  | ●          |               |           |            |               |      |          |   |                       |      |          |   |               |      |           |   |  |                 |                      |   |  |                 |                      |   |  |
| Life expectancy – Males currently aged 45 / 65   | 22.6/21.4 Years  | 22.4-24.3/ 21.0-22.6   | ●          |               |           |            |               |      |          |   |                       |      |          |   |               |      |           |   |  |                 |                      |   |  |                 |                      |   |  |
| Life expectancy – Females currently aged 45 / 65 | 25.5/23.7 Years  | 25.3-27.5/ 23.5-24.7   | ●          |               |           |            |               |      |          |   |                       |      |          |   |               |      |           |   |  |                 |                      |   |  |                 |                      |   |  |

### 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   |
|--|--|---|--|
| Depreciation and useful economic lives of assets | Items of property, plant and equipment are depreciated over their remaining useful lives in a manner consistent with the consumption of economic or service delivery benefits. Freehold land is considered to have an infinite life and is not depreciated. Management's accounting policy is that property depreciation should be applied with a straight-line allocation over the life of the property as estimated by the valuer. | <p>We have:</p> <ul style="list-style-type: none"> <li>Reviewed the accounting policy;</li> <li>Recalculated the depreciation charge based on the useful economic lives as provided by the valuer as well as an overall recalculation of depreciation;</li> <li>Assessed the reasonableness of the useful economic life for a sample of assets; and</li> <li>Assessed the appropriateness of the policy in line with the financial reporting framework.</li> </ul> <p>Our audit work has noted that assets revalued on the 1 April 2021 have not been depreciated for the year. Our testing also noted that whereas the Council have removed the di-minimis level to capitalise assets this limit has not been removed when calculating depreciation. Both these issues have identified an underestimate in the depreciation charged amounting to a total of £40,972. The Council has not adjusted for this and this has been recorded in Appendix C.</p> | Light Purple<br>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 - £1.937m | <p>The Council is 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 change in the provision in 2021/22.</p> <p>Currently we are waiting to corroborate that the Council have used the latest information</p> | <p>To review the estimate, we have;</p> <ul style="list-style-type: none"> <li>Assessed management's expert</li> <li>Assessment of the impact of the cost-of-living crisis on the collection of debt and adequacy of provisions.</li> <li>reviewed the appropriateness of the underlying information used to determine the estimate</li> <li>reviewed the impact of any changes to the valuation method</li> <li>assessed the reasonableness of the estimate</li> <li>reviewed the adequacy of disclosure of estimate in the financial statements</li> </ul> <p>Our audit work has identified the Council did not use the current information to calculate the provision. The Council has obtained data post year end and recalculated the appeals provision. The appeals provision was reduced due to a court decision in December 2021. The reduction in appeals will have followed through in January 2022. Although we cannot verify the correct amount as at 3/3/2022 we have noted the Council have an over provision of approximately £696k. As this impacts on the collection fund, which is shared amongst other preceptors the Council has not amended for this and it is reported on page 34 as an unadjusted error. In our view the Council should amend for this change as it reflects the most up to date information which reflects the current position. We have raised a recommendation for the Council to ensure the most current available data is used to calculate the provision.</p> | <p>[Grey]<br/>We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious</p> |

### Assessment

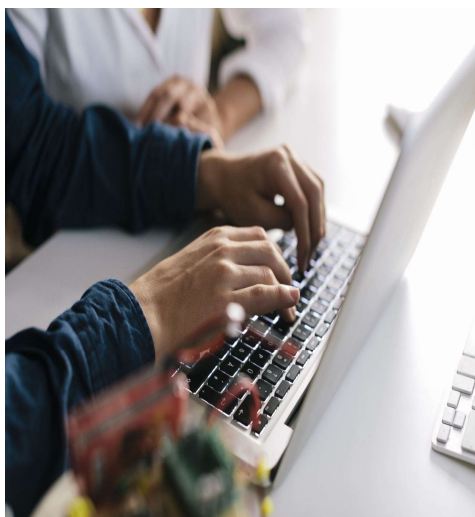
- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider 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 - 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      | We are not aware of any 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   |

## 2. Financial Statements - other communication requirements



| Issue   | Commentary   |
|---|--|
| Confirmation requests from third parties                  | We requested from management permission to send confirmation requests to, banks, investment bodies and long term debtors. This permission was granted and the requests were sent. All these were returned with positive confirmation.  |
| Accounting practices                                      | We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found the Council had not removed the di-minimis limit in the Property, Plant and Equipment accounting policy, although the updated policy had been applied in the accounts.<br>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 | <p data-bbox="871 464 2051 603">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.</p> <p data-bbox="871 619 2011 671">Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul data-bbox="871 687 2074 983" style="list-style-type: none"> <li>• 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</li> <li>• 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.</li> </ul> <p data-bbox="871 999 2051 1137">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:</p> <ul data-bbox="871 1153 1973 1297" style="list-style-type: none"> <li>• the nature of the Council and the environment in which it operates</li> <li>• the Council's financial reporting framework</li> <li>• the Council's system of internal control for identifying events or conditions relevant to going concern</li> <li>• management's going concern assessment.</li> </ul> <p data-bbox="871 1313 2051 1335">On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul data-bbox="871 1351 2051 1445" style="list-style-type: none"> <li>• a material uncertainty related to going concern has not been identified</li> <li>• management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.</li> </ul> |

## 2. Financial Statements - other responsibilities under the Code

| Issue                                   | Commentary   |
|---|--|
| Other information                       | <p>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.</p> <p>Our work on the Narrative Statement has been completed, amendments have been made based on the revised accounts.</p> <p>Our work on the Annual Governance Statement has identified one minor change.</p> <p>We plan to issue an unmodified opinion in this respect – refer to appendix E</p>                 |
| Matters on which we report by exception | <p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> <li>• if the Annual Governance Statement <b>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,</b></li> <li>• if we have applied any of our statutory powers or duties.</li> <li>• where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es.</li> </ul> <p>We have nothing to report on these matters from the work completed to date.</p> |



## 2. Financial Statements - other responsibilities under the Code

| Issue  | Commentary  |
|--|---|
| <b>Specified procedures for Whole of Government Accounts</b> | <p>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.</p> <ul style="list-style-type: none"> <li>Note that work is not required as the Council does not exceed the threshold;</li> </ul> |
| <b>Certification of the closure of the audit</b>             | <p>We intend to delay the certification of the closure of the 2021/22 audit of <b>Pendle Borough Council</b> in the audit report, as detailed in Appendix E, due to incomplete VFM work.</p>  |



# 3. Value for Money arrangements

## Approach to Value for Money work for 2021/22

The National Audit Office issued its guidance for auditors in April 2020. The Code requires 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. Given that we are into the 2022-23 audit year we will complete joint reporting of VFM work for 2021-22 and 2022-23.

As part of our planning 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.

We have not identified risks of significant weakness for 2021/22 at this point, however we did identify three significant weaknesses in our 2020/21 VFM work which were set out in our Auditor's Annual Report for that year. We will follow up the Council's response to these issues and actions taken as part of our 2021/22 VFM work.

Our auditor's report will report the findings of our work.

## Key recommendations identified in 2020/21

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We recommend acute attention is given to the Medium Term Financial Plan to address the shortfall identified in future years. In doing so the Council should build up on the level of reserves it has in place to ensure the Council has adequate funds to be able to support any shortfalls.

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The Council has had numerous staff changes through the various levels of the finance team over the last 18 month. The Council needs to ensure staff changes are minimised so controls can operate as required.

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The Council should ensure regular budget monitoring is completed to the Committee/Council on a minimum of a quarterly basis. Budget monitoring should also be included in performance reviews for individuals.

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# 3. VFM - our procedures and conclusions

| Risk of significant weakness  | Procedures undertaken  | Conclusion   | Outcome  |
|---|--|--|--|
| <p>Acute attention is given to the Medium Term Financial Plan to address the shortfall identified in future years. In doing so the Council should build up on the level of reserves it has in place and draft a detailed plan to identify and implement savings required, to ensure the Council has adequate funds to be able to support any shortfalls.</p>                          | <p>We have reviewed the current Medium Term Financial Plan.</p>                  | <p>We have noted although the position is improving this remains a significant risk in 2021/22.</p>  | <p>We will complete further work on this and report in the Auditors Annual Report.</p> |
| <p>The Council should ensure regular and sufficiently detailed budget monitoring is reported to the Committee/Council on a minimum of a quarterly basis. Budget monitoring should also be included in performance reviews for individuals. It is important that members have timely and detailed budget monitoring information in order to support them in their decision making.</p> | <p>We have reviewed the monitoring completed to members throughout the year.</p> | <p>We have noted that although monitoring has not been completed in 2021/22 however, the arrangements are in place for 2022/23.</p>                  | <p>We will complete further work on this and report in the Auditors Annual Report.</p> |
| <p>The Council has had numerous finance staff changes through the various levels of the finance team over the last 18 months. The Council needs to ensure staff changes are minimised so controls can operate as expected and required.</p>   | <p>We have worked closely with the finance team over the year.</p>               | <p>We have noted that although the team is now fully staffed with experienced members there is a learning process which staff are going through.</p> | <p>We will complete further work on this and report in the Auditors Annual Report.</p> |

## 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 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 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

## 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 which were charged from the beginning of the financial year to March 2023, 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 | 13,840 | 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 £13,840 in comparison to the total fee for the audit of £62,635 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 6 new recommendation 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  |
|---------------------|--|--|
| Low – Best practice | <b>Gifts and Hospitality</b><br>There was no process for Gift and Hospitality Register to be monitored in 2021/22. Service Managers had been contacted for a response for 2021-22 as part of the audit. No issues were identified which required disclosing.   | A process should be established to complete this on an annual basis and it should be reviewed by management<br><b>Management response</b><br>Management to implement a methodology to allow capture of Gifts & Hospitality and for this to be reviewed annually.   |
| Low – Best Practice | <b>Financial Instruments</b><br>Note 14 Nature and extent of risks arising from financial instruments included an amount for the operational boundary limit, however this did not tie into the treasury management strategy.   | Ensure all limits are consistent<br><b>Management response</b><br>Agreed, note to be updated.  |
| Medium              | <b>Assets Under Construction</b><br>We have noted the Council has long term assets under construction which run for a number of years. These are currently recorded at cost and will be revalued when they come into use. Management has not assessed these assets for any potential impairment.<br>As well as assets under construction the Council should also review intangible assets and other land and buildings for potential impairment.<br>Documentation should be provided for the audit process to demonstrate this review. | We recommend all non current assets are reviewed for impairment on a regular basis and documentation maintained to support this<br><b>Management response</b><br>Management to review all Assets Under Construction although it is noted that both ‘a number of years’ and ‘regular basis’s are equally undefined. |

## Controls

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

# A. Action plan – Audit of Financial Statements

| Assessment | Issue and risk   | Recommendations  |
|------------|--|--|
| Medium     | <b>Provision</b><br>The Council were unaware of the need to send Analyse Local information for them to send through the current list of appeal's outstanding. Therefore the provision was over calculated.   | The Council should ensure the most recent information is received from Analyse Local so the correct provision can be calculated.<br><b>Management response</b><br>Agreed   |
| Medium     | <b>Long Term Debtors</b><br>Management have a number of long term debtors with the Pearl companies, however not all the agreements are in place. We received 1 agreement out of the 4 required.<br><br>Without signed agreements, the Council is at risk of not being able to pursue the repayment of the loans should there be any dispute over payment and/or payment is not received. | We recommend the remaining agreements are located or if that is not possible, updated agreements are put into place, to ensure all parties are aware of the terms agreed.<br><b>Management response</b><br>Agreed  |
| Medium     | <b>Capital Financing Requirement</b><br>The Council should review the capital financing requirement to ensure it is calculated in line with the Prudential Code.   | The capital financing requirement should be calculated in line with the Prudential Code as this will impact the Council's financing decisions as well as the minimum revenue provision which will impact the Councils General Fund and so the council tax setting decisions.<br><b>Management response</b><br>Agreed, capital financing requirement calculation is under review. |

## 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 2020/21 financial statements, which resulted in 8 recommendations being reported in our 2020/21 Audit Findings report. We have followed up on the implementation of our recommendations and note 5 are still to be completed.

| Assessment | Issue and risk previously communicated   | Update on actions taken to address the issue  |
|------------|--|---|
| X          | <b>Revaluation of Assets</b><br><br>Assets are revalued as at the 1 April but we 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.   | The Asset Re-Valuation individual Report continues to have 1st April. The Valuations are carried out RICS Red Book compliant during the Financial years. The Council has advised that comparable and market trends are observed throughout and 'Impairment' review considered if 'Market' changes or yields are seen to have taken place. However the Council have not documented this process. |
| X          | <b>Assets not revalued</b><br><br>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.   |   |
| X          | <b>Surplus assets</b><br><br>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 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. | The Council have revalued £2.509 million as part of the five year revaluation program, leaving a difference of £0.303 million not revalued.   |
| ✓          | <b>Journals Authorisation</b><br><br>Our system documentation on journals identified an issue where accountancy staff are able to authorise their own journals. However, a compensating control is 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.  | Monthly Check now being done every month by the Systems Team. The Financial services manager also reviews and approves the journals.  |

## Assessment

- ✓ Action completed
- X Not yet addressed

# B. Follow up of prior year recommendations

| Assessment | Issue and risk previously communicated  | Update on actions taken to address the issue  |
|------------|---|---|
| X          | <p><b>Depreciation of Additions</b></p> <p>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.</p>   | No changes have been made to the process in 2021/22. This recommendation stands.  |
| X          | <p><b>Depreciation of Assets Revalued in Year</b></p> <p>Assets revalued in year have a valuation date of 01/04/21 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 that there is a risk that over time depreciation will become increasingly misstated.</p> | No changes have been made to the process in 2021/22, as the asset is revalued at the start of the year the Council should include a depreciation charge for the year. This recommendation still stands. |
| ✓          | <p><b>Aged Debtors</b></p> <p>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</p>  | A review of aged debt will be carried out with Liberata UK to review and write off debt as necessary.   |
| X          | <p><b>Related Party Transactions</b></p> <p>Our testing identified that 11 councillors answered No to the questions on association with any body. However the companies search identified that this was not the case.</p>   | Some members have not fully disclosed their interests, therefore the recommendation remains in place.   |

## 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 2022.

| Detail  | Comprehensive Income and<br>Expenditure Statement £'000 | Statement of Financial Position<br>£' 000                      | Impact on total net<br>expenditure £'000 |
|---|---|--|--|
| The Council incorrectly included internal recharges of £7.701m within the Net Cost of Services. This overstated the gross expenditure and gross income balances.  | Cr Gross Expenditure £7,701k<br>Dr Gross Income £7,701k | Nil  | Nil                                      |
| The Council incorrectly included covid agency grants of £7.024m within the Net Cost of Services. This overstated the gross expenditure and gross income balances.   | Cr Gross Expenditure £7,024k<br>Dr Gross Income £7,024k | Nil  | 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 2022-23 had been incorrectly accounted for as a prepayment rather than reducing the Pension Liability. | Nil   | Dr Pension Liability £1,652k<br>Cr Payments in advance £1,652k | Nil                                      |
| The Council removed the diminimis limit however did not amortise the intangible assets which were brought into use. These changes have affected the notes to the accounts.  | Dr Gross Expenditure £23k                               | Cr Amortisation £23k   | £23k                                     |
| Various changes impacting the property, plant and equipment balance. These changes have affected the notes to the accounts.   | Dr Gross Expenditure £872k                              | Cr Property, plant and equipment £872k                         | £872k                                    |
| Audit fee was adjusted to agree to the audit plan. These changes have affected the notes to the accounts.   | Dr Gross Expenditure £10k                               | Cr Creditors £10k  | £10                                      |
| Change in pension liability following triennial valuation   | Cr Gross Expenditure £8,091k                            | Dr Pension Liability £8,091k                                   | (£8,091k)                                |
| <b>Overall impact</b>   | <b>(£7,186k)</b>  | <b>£7,186k</b>   | <b>(£7,186k)</b>                         |

# C. Audit Adjustments

## 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  | Adjusted? |
|--|-----------|
| <b>Accounting Policy</b><br>The Council's accounting policy on Property, plant and equipment maintains a de-minimis threshold of £10,000. However the Council have removed this limit and capitalised all assets owned by the Council regardless of the value.<br>Narrative has been added to make it clear the Accounting Policies form part of the notes to the accounts.  | ✓         |
| <b>Note 6 Adjustments between accounting basis and funding basis under regulations</b><br>Voluntary revenue provision of £79k to be included in the note<br>Amounts of non-current assets written off should be changed to £1,065k<br>Reversals relating to retirement benefits should be changed to £3,003k   | ✓         |
| <b>Note 7 Earmarked Reserves</b><br>The note disclosed earmarked reserves as 10,491k but should be 10,067k as well as this capital grants disclosed as 4,126k but should be 4,109k   | ✓         |
| <b>Note 11 Property Plant and Equipment</b><br>The note has been amended for revaluation increases/(decreases) to revaluation reserve and provisions services to agree to the fixed asset register.<br>The amount for capital commitments has been added. Revaluations table also updated to agree to the fixed asset register.  | ✓         |
| <b>Note 15 Short Term Debtors</b><br>The note has been amended to remove the prepayment of pension fund contributions.   | ✓         |
| <b>Note 27 Expenditure and income analysed by Nature</b><br>The figures in this note have been amended following the agreed amendments to the net cost of services in the Comprehensive Income and Expenditure Statement.<br>Employee benefit expenses has been amended from £11,054 to £8,801k<br>Other Service Expenses has been amended from £45,556 to £32,900k<br>Expenditure associated with Council tax/NDR has been amended from £9,145 to (£837)<br>Gain or Loss on Disposal of NCA /Pensions has been amended from £980 to £1,432k | ✓         |
| <b>Note 28 Officers Remuneration</b><br>The salary for the Corporate Director salaries has been amended to £100,859 from £80,687; and<br>The salary for the Chief Executive has been amended to £96,079 from £76,863. The bandings have been similarly amended.<br>The accounts have been amended to correctly show the 2 exit packages in 2021-22 and included the total costs of these packages. The changes in the Chief Finance Officer post have also been made clearer.  | ✓         |

# C. Audit Adjustments

## Disclosure omission

## Adjusted?

### Note 30 External Audit Costs

✓

The prior year audit fees has been amended to agree to the 2020/21 audited accounts. The current year audit fees has been amended to correctly show the costs in relation to 2021/22.

### Note 31 Grant Income

✓

The note has been amended to show the grants in relation to agency grants which are not included in the Net Cost of Services.

The 2020/21 brought forward figures had been omitted for 2 grants in relation to Covid and the amount for the REFCUS amended to agree to the audited 2020/21 accounts.

### Note 35 Defined Pension Scheme

✓

The opening balances for 2020/21 pension asset has been amended to reflect the audit change agreed to in 2020/21.

The treatment for pension prepayment has been amended so it has been removed from debtors prepayment and the pension liability has been reduced.

The figures and assumptions has been amended to reflect changes following the triennial valuation and additional disclosure has been added to show basis of estimating the liability and the impact on cash flow.

Various amendment have been made throughout the accounts to correct page numbers and note references.

✓

### Collection Fund Note 3

✓

The NDR rateable value was amended to reflect the position as at the 31/3/22.

### Note 11 - Leases

✓

Disclosure has been made for leases as they are material

### Note 34 - Capital Expenditure and Capital Financing

✓

Various changes on figures have been made due to the changes in the property plant and equipment note

### Note 26 and Note 27 - Expenditure and Funding Analysis

✓

The note has been amended to reflect the updated figure following adjustments made to the CIES

### Note 22 Unusable Reserves

✓

The Council has material Capital Grants Unapplied and have amended the accounts to show this has a note.

### Narrative Statement

✓

The statement has been amended to reflect changes made to the statement of accounts.

### Note 5 Events after the balance sheet date

✓

Disclosures are needed to reflect the additional events taking place following the triennial valuation and updates on the defined benefit pension schemes.

### Annual Governance Statement

✓

The statement has been amended to remove the effectiveness of internal audit reference.

# C. Audit Adjustments



## Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2021/22 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<br>£'000 | Statement of Financial Position<br>£' 000 | Impact on total net expenditure<br>£'000 | Reason for not adjusting  |
|---|---|---|--|---|
| Our creditors testing identified an accrual of £66k however the budget was due to be rolled forward into 2022/23 and not accrued in 2021/22.  | -66   | 66  | -66                                      | Not material  |
| Our testing identified the Council have not depreciated additions in the period of acquisition.   | 41  | -41                                       | 41                                       | Not material  |
| Our testing identified the Council were using out of date information to calculate the Appeal Provision. Although information at the 31/3/22 was not available the Council have used data as at July 2022. The circumstances for the decrease in appeals was applicable at the 31/3/22 therefore the provision has been calculated on this basis. | -696  | 696                                       | -696                                     | As the appeals provision impacts on the collection fund, hence is shared amongst other preceptors whose accounts will have been closed. |
| Our work on the pension assumptions identified the actuary has updated the pay growth assumptions in the revised IAS 19 report, however this is not consistent with our auditors experts expectation. We have projected this change.  | 205   | -205                                      | 205                                      | The Council have used the rates as recommended by the actuary and feel these are a true reflection of pay growth.                       |
| Overall impact  | -£516   | £516                                      | -£516                                    |   |

# D. Fees

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

| <b>Audit fees</b>                | <b>Proposed fee</b> | <b>Final fee</b> |
|----------------------------------|---------------------|------------------|
| Council Audit                    | 62,635              | 92,385           |
| Total audit fees (excluding VAT) | £62,635             | 92,385           |

Please note – give the considerable time the audit has taken to complete, the number of errors identified and the work needed to assess and work on those errors, there will be considerable additional fees to be charged.

## 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 | 118,975       |
| • additional fee for 2020/21    | (42,500)      |
| • HBAP fee for 2021/22          | (13,840)      |
| • Additional fee for 2021/22    | <u>29,750</u> |
| • <b>total fees per above</b>   | <b>92,385</b> |

| <b>Non-audit fees for other services</b> | <b>Proposed fee</b> | <b>Final fee</b> |
|--|---------------------|------------------|
| Audit Related Services – HBAP Claim      | 13,840              | 13,840           |
| Total non-audit fees (excluding VAT)     | £13,840             | £13,840          |

# D. Fees

|  |               |
|--|---------------|
| Scale fee published by PSAA 2019   | £34,285       |
| Raising the bar  | £2,375        |
| PPE valuation  | £688          |
| Pensions Liability work  | £687          |
| Reduced materiality  | £2,500        |
| Additional work on Value for Money (VfM) under new NAO Code  | £9,000        |
| Increased audit requirements of revised ISAs 540   | £2,100        |
| Enhanced audit procedures on journals testing (not included in the Scale Fee)                        | £3,000        |
| Local risk factors (VfM significant weaknesses 2020-21)  | £6,000        |
| Other complex issues   | £2,000        |
| Revisions of pension figures following the triennial review and associated work                      | £6,500        |
| PPE issues (associated issues with the change in accounting policy, calculation of depreciation etc) | £5,500        |
| Quality issues - NDR Appeals additional work   | £2,750        |
| Technical Accounting issues – Capital financing requirement  | £2,500        |
| Preparation issues due to material amendments at the commencement of the audit                       | £1,500        |
| Quality issues – quality of evidence for various samples and assessment of errors identified         | £5,250        |
| Preparation issues – Leases note originally omitted work covered two years disclosures               | £3,600        |
| Quality issues – Amendments made to the statements and senior office remuneration disclosures        | £2,150        |
| <b>Total audit fees 2021/22 (excluding VAT)</b>  | <b>92,385</b> |



# E. Audit opinion

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 2022, 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 2021/22.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2022 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 2021/22; 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.

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 2021/22 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.

# E. Audit opinion

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 Annual Governance Statement and 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;
- 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 2021/22, 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.

# E. Audit opinion

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](http://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 2021/22, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015 and the Local Government Act 2003, 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.
- 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 controls, in particular journals, management estimates and transactions outside the course of business
  - closing journals posted during the preparation of the financial statements.

# E. Audit opinion

- 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 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. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as 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.
- Our 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.

## 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 2022.

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 2022.

# E. Audit opinion

## 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 December 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 2022 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 2022.

We are satisfied that this work does not have a material effect on the financial statements for the year ended 31 March 2022.

## 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  
Royal Liver Building  
Liverpool  
L3 1PS

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

Dear Sirs

### **Pendle Borough Council** **Financial Statements for the year ended 31 March 2022**

This representation letter is provided in connection with the audit of the financial statements of Pendle Borough Council for the year ended 31 March 2022 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 2021/22 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 2021/22 ("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 revaluations of land and buildings and pensions. 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. During the year we evaluated our estimation process for valuation of land and buildings, depreciation, pension fund liability and business rates appeals provision. No changes to the estimation process were made. 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.
- 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.



# F. Management Letter of Representation

- 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. 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 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 Council has complied with all aspects of ring-fenced grants that could have a material effect on the Council's financial statements in the event of non-compliance.
- xvi. We confirm that we expect to recover the full amount of all long terms loans issued to all PEARL associate companies and are not aware of any circumstances that would impact collectability of the debt or the amounts expected to be recovered.

## Information Provided

- xvii. 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;
  - b. additional information that you have requested from us for the purpose of your audit; and
  - c. access to persons within the Council via remote arrangements from whom you determined it necessary to obtain audit evidence.
- xviii. We have communicated to you all deficiencies in internal control of which management is aware.
- xix. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xx. 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.

# F. Management Letter of Representation

- xxi. 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.
- xxii. 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.
- xxiii. 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.
- xxiv. 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.
- xxv. 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

- xxvi. 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

- xxvii. 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 **[ENTER DATE]**.

Yours faithfully

Name.....

Position.....

Date.....

Name.....

Position.....

Date.....

## Signed on behalf of the Council



# G. Audit letter in respect of delayed VFM work

Cllr D. Cockburn-Price  
Chair of Audit Committee  
Pendle Borough Council  
11 October 2022

Dear Cllr Cockburn-Price

The original expectation under the approach to VFM arrangements work set out in the 2020 Code of Audit Practice was that auditors would follow an annual cycle of work, with more timely reporting on VFM arrangements, including issuing their commentary on VFM arrangements for local government by 30 September each year at the latest. Unfortunately, due to the on-going challenges impacting on the local audit market, including the need to meet regulatory and other professional requirements, we have been unable to complete our 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.

We wrote to you on 26 July 2022 to confirm that we expected to publish our Auditor's Annual Report, including our commentary on arrangements to secure value for money, no later than 22 November 2022. There will be a delay in this, due to the late completion of the 2020-21 financial statements audit and the 2021/22 financial statements still outstanding. We expect to publish our report by 31 March 2023 subject to the financial statements audit.

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



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