This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

Pendle Borough Council Audit Plan

Year ending 31 March 2023

Pendle Borough Council

October 2023

Contents

Your key Grant Thornton team members are:

Georgia Jones
Key Audit Partner
T 0161 214 6383
E Georgia.S.Jones@uk.gt.com

Sophia S Iqbal
Engagement Manager
T 0161 234 6372
E Sophia.S.Iqbal@uk.gt.uk

Jobelle Bongato
Assistant Manager
T 0161 234 6364
E Jobelle.Bongato@uk.gt.com

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 we cannot be held responsible to you for reporting all 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.

Key matters

National context

For the general population, rising inflation rates, in particular for critical commodities such as energy, food and fuel, is pushing many households into poverty and financial hardship, including those in employment. At a national government level, recent political changes have seen an emphasis on controls on spending, which in turn is placing pressure on public services to manage within limited budgets.

Local Government funding continues to be stretched with increasing cost pressures due to the cost-of-living crisis, including higher energy costs, increasing pay demands, higher agency costs and increases in supplies and services. Local authority front-line services play a vital role in protecting residents from rising costs; preventing the most vulnerable from falling into destitution and helping to build households long-term financial resilience. At a local level, councils are also essential in driving strong and inclusive local economies, through their economic development functions and measures like increasing the supply of affordable housing, integrating skills and employment provision, and prioritising vulnerable households to benefit from energy saving initiatives. Access to these services remains a key priority across the country, but there are also pressures on the quality of services. These could include further unplanned reductions to services.

Our recent value for money work has highlighted a number of governance and financial stability issues at a national level, which is a further indication of the mounting pressure on audited bodies to keep delivering services, whilst also managing transformation and making savings at the same time.

In planning our audit, we will take account of this context in designing a local audit programme which is tailored to your risks and circumstances.

Audit Reporting Delays

In a report published in January 2023 the NAO have highlighted that since 2017-18 there has been a significant decline in the number of local government body accounts including an audit opinion published by the deadlines set by government. The NAO outline a number of reasons for this and proposed actions. In March 2023, we issued About time?, which explored the reasons for delayed publication of audited local authority accounts. In our view, it is critical to early sign off that draft local authority accounts are prepared to a high standard and supported by strong working papers.

Key matters

Our Responses

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set out further in our Audit Plan, has been agreed with the Director of Finance.
- We will consider your arrangements for managing and reporting your financial resources as part of our audit in completing our Value for Money work.
- Our value for money work will also consider your arrangements relating to governance and improving economy, efficiency and effectiveness.
- We will continue to provide you and your Audit Committee with sector updates providing our insight on issues from a range of sources and other sector commentators via our Audit Committee updates.
- We hold annual financial reporting workshops for our audited bodies to access the latest technical guidance and interpretation, discuss issues with our experts and create networking links with other audited bodies to support consistent and accurate financial reporting across the sector.
- We have identified an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to increasing financial pressures. We have identified a significant risk in regards to management override of control– refer to page 8.

Introduction and headlines

Purpose

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

Respective responsibilities

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

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council's financial statements that have been prepared by management with the oversight of those charged with governance the Audit and Accounts Committee; and we consider whether there are sufficient arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently in order to maximise the outcomes that can be achieved.

The audit of the financial statements does not relieve management or the Audit and Accounts Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

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

Introduction and headlines

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- management override of controls;
- valuation of land and buildings and surplus assets; and
- valuation of pension fund net liability or asset.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £0.832m (PY £0.831m) for the Council, which equates to 1.85% of your prior year gross operating costs for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. As part of our risk assessment, we have considered the impact of unadjusted prior period errors.

Clearly trivial has been set at £0.041m (PY £0.041m).

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money has not identified any additional risks of significant weakness. We will continue to assess the Council's arrangements and will provide a commentary against all key lines of enquiry in the Auditor's Annual Report. Should we identify any further areas of significant weakness as part of our further work we will bring them to your attention.

New Auditing Standards

There are two auditing standards which have been significantly updated this year. These are ISA 315 (Identifying and assessing the risks of material misstatement) and ISA 240 (the auditor's responsibilities relating to fraud in an audit of financial statements). We provide more detail on the work required later in this plan.

Audit logistics

Our planning visit will take place in October 2023 and our final visit will take place in November to January 2024. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report.

Our proposed fee for the audit will be £70,886 (PY: £92,385) for the Council, subject to the Council delivering a good set of financial statements and working papers and no significant new financial reporting matters arising that require additional time and/or specialist input.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) 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.

Significant risks identified

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.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
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; and • 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 heighted inherent risk of 'other service expenditure' in our audit scoping and testing assessment.	As we do not consider this to be a significant risk for the Council, we will not be undertaking any specific work in this area other than our normal audit procedures. We will: • review and test, on a sample basis, material revenue and expenditure transactions, ensuring that it remains appropriate to rebut the presumed risk of revenue and expenditure recognition. • design and carry out appropriate audit procedures to ascertain the recognition of income and expenditure is in the correct accounting period using cut-off testing.

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty.' (ISA (UK) 315)

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride 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 will: • evaluate the design effectiveness of management controls over journals; • analyse the journals listing and determine the criteria for selecting high risk unusual journals; • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness regarding corroborative evidence; and • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Land and Buildings and Surplus Assets	The Council revalues its land and buildings on a five-yearly rolling programme basis. This valuation of £45m represents a significant estimate by management in the financial statements due to the size of the numbers involved. 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 as a significant risk.	We will: • update our understanding of the processes and controls put in place by management to ensure that the Council's valuation of land and buildings are not materially misstated and evaluate the design of the associated controls; • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work; • evaluate the competence, capabilities and objectivity of the valuation expert; • write to the valuer to confirm the basis on which the valuations were carried out; • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • test a sample of valuations at 31 March 2023 to understand the information and assumptions used in arriving at any revised valuations; • test revaluations made during the year to see if they had been input correctly into the Council's asset register; • review management's assessment on assets not revalued and challenge the reasonableness; and • review whether the expert valuer has reported any material uncertainty in relation to property valuations as at 31 March 2023 and, if so, assess the impact on disclosures in the financial statements and on our audit opinion.

Management should expect engagement teams to challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates and similar areas. Management should also expect to provide to engagement teams with sufficient evidence to support their judgments and the approach they have adopted for key accounting policies referenced to accounting standards or changes thereto.

Where estimates are used in the preparation of the financial statements management should expect teams to challenge management's assumptions and request evidence to support those assumptions.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability or asset	The Council's pension fund net liability or asset, as reflected in its balance sheet as the net defined benefit liability or asset and represents a significant estimate in the financial statements. The pension fund net liability of £27m is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • update 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; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • test 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; • undertake 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; • review whether the pension fund has reported any material uncertainty in relation to investment property valuations as at 31 March 2023 and, if so, assess the impact on disclosures in the financial statements and on our audit opinion; • review management assessment of IFRIC 14 and completed our own audit procedures; and • obtain 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.

Other matters

Other work

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

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your 2022/23 financial statements, consider and decide upon any objections received in relation to the 2022/23 financial statements;
  - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act);
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act;
  - issuing an advisory notice under section 29 of the Act.
- We certify completion of our audit.

Other material balances and transactions

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

Progress against prior year audit recommendations

We identified the following issues in our 2021/22 audit of the Council's financial statements, which resulted in 6 recommendations being reported in our 2021/22 Audit Findings Report. There were also 6 recommendations from the prior year which remained outstanding in 2021/22. We will follow up progress against all these recommendations as part of our 2022/23 financial statements audit.

Issue and risk previously communicated	Update on actions taken to address the issue
Gifts and hospitality 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.	The Council agreed management will implement a methodology to allow the capture of Gifts & Hospitality and for this to be reviewed annually. We will follow this up on our post statements visit.
Financial Instruments 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. The Council should ensure that all limits are consistent	The Council ensured this will be consistent with the strategy. We will follow this up on our post statements visit.
Assets under construction 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. As well as assets under construction the Council should also review intangible assets and other land and buildings for potential impairment. Documentation should be provided for the audit process to demonstrate this review.	Management agreed to review all Assets Under Construction. We will follow this up on our post statements visit.

Progress against prior year audit recommendations

Issue and risk previously communicated	Update on actions taken to address the issue
Long Term Debtors 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. 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.	Management agreed to locate the remaining agreements are located or updated agreements to ensure all parties are aware of the terms agreed. We will follow this up on our post statements visit.
Provisions 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.	Management agreed the most recent information is received from Analyse Local so the correct provision is calculated. We will follow this up on our post statements visit.
Capital Financing Requirement The Council should review the capital financing requirement to ensure it is calculated in line with the Prudential Code.	Management agreed to review the capital financing requirement to ensure it is calculated in line with the Prudential Code. We will follow this up on our post statements visit.
Revaluation of Assets 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 **Assets not revalued** Assets are revalued on a 5 year rolling program however no further work has been completed on assets not revalued. Management should complete their own assessment on these assets to confirm the value has not been materially changed.	The following recommendations were followed up in 2021/22 where we noted the valuations continue to have a 1st April date of valuation. 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. The Council have not documented this process so we are unable to verify if the process takes place. It should be noted that by not implementing these recommendations the Council is accepting the risk that at the time of the audit the value of land and buildings may have moved by a material amount (between 1 April and 31 March) if the market becomes more volatile. If this occurs it will mean additional work on the audit and additional fees will be levied. Members by accepting the response above are accepting this risk.

Progress against prior year audit recommendations

Issue and risk previously communicated	Update on actions taken to address the issue
Surplus assets The Code requires Surplus Assets to be stated at fair value therefore these assets are required to be revalued on an annual basis. The Council has revalued 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.	This recommendation was followed up in 2021/22 where we noted the Council have revalued £2.509 million as part of the five year revaluation program, leaving a difference of £0.303 million not revalued. All surplus assets should be revalued on an annual basis therefore we will follow this up on our post statements visit.
Depreciation of Additions The current policy is to depreciate assets the year after acquisition however the Code requires assets to be depreciated as and when they are put into use. The current depreciation policy does not comply with Code requirements and there is a risk that over time depreciation will become increasingly misstated.	This recommendation was followed up in 2021/22 where we noted no changes have been made to the process. We will follow this up again on our post statements visit..
Depreciation of Assets Revalued in Year 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.	This recommendation was followed up in 2021/22 where we noted no changes have been made to the process. We will follow this up again on our post statements visit..
Related Party Transactions 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.	This recommendation was followed up in 2021/22 where we noted some members have still not fully disclosed their interests. We will follow this up again on our post statements visit.

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.

Matter	Description	Planned audit procedures
1	**Determination** We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. Materiality at the planning stage of our audit is £0.832m, which equates to 1.85% of your draft gross expenditure for the prior period.	We determine planning materiality in order to: – establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements – assist in establishing the scope of our audit engagement and audit tests – determine sample sizes and – assist in evaluating the effect of known and likely misstatements in the financial statements
2	**Other factors** An item does not necessarily have to be large to be considered to have a material effect on the financial statements.	An item may be considered to be material by nature where it may affect instances when greater precision is required. Due to the public interest in senior officer remuneration disclosures, we apply specific audit procedures and have not set a materiality level. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be applicable for senior officer remuneration disclosures. We will apply heightened auditor focus in the completeness and clarity of disclosures in this area and will request amendments to be made if any errors would alter the bandings reported for any individual.

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.

Matter	Description	Planned audit procedures
3	**Reassessment of materiality** Our assessment of materiality is kept under review throughout the audit process.	We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.
4	**Other communications relating to materiality we will report to the Accounts and Audit Committee** Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Accounts and Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.	We report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.416m (PY £0.415m). If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

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.

	Amount (£)	Qualitative factors considered
Materiality for the financial statements	832,000	• Control environment: As the issues and risks have not changed in 21/22, we have maintained the same materiality % as prior year. • Debt arrangements: the Council has a significant level of debt, but the majority of this is with PWLB and the Council follows the CIPFA Prudential Code with regard to managing the levels of debt. We are not aware of significant debt covenants or other factors that would indicate an enhanced risk. Therefore, we have not reduced materiality. • Business environment: the Council operates in a generally stable, regulated environment. • Other sensitivities: There has been no change in key stakeholders, and no other sensitivities have been identified.
Materiality for specific transactions, balances or disclosures - senior officer remuneration	N/A see comment	Due to the public interest in senior officer remuneration disclosures, we apply specific audit procedures and have not set a materiality level. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be applicable for senior officer remuneration disclosures. We will apply heightened auditor focus in the completeness and clarity of disclosures in this area and will request amendments to be made if any errors would alter the bandings reported for any individual.

IT audit strategy

In accordance with ISA (UK) 315, we are required to obtain an understanding of the information systems relevant to financial reporting to identify and assess the risks of material misstatement. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design of ITGCs related to security management; technology acquisition, development and maintenance; and technology infrastructure. Based on the level of assurance required for each IT system the assessment may focus on evaluating key risk areas ('streamlined assessment') or be more in depth ('detailed assessment').

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT system	Audit area	Planned level IT audit assessment
Civica Financials	Financial reporting	• A review of the IT General Controls related to security management, development and maintenance and technology infrastructure
Northgate	Council Tax, Business Rates, Benefits	• A review of the IT General Controls related to security management, development and maintenance and technology infrastructure
Chris21	Payroll	• A review of the IT General Controls related to security management, development and maintenance and technology infrastructure

Value for Money arrangements

Approach to Value for Money work for the period ended 31 March 2023

The National Audit Office, issued its latest Value for Money guidance, to auditors in January 2023. The Code expects auditors to consider whether a body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are expected to report any significant weaknesses in the body's arrangements, should they come to their attention. In undertaking their work, auditors are expected to have regard to three specified reporting criteria. These are as set out below:

Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services.

Financial Sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services.

Governance

How the body ensures that it makes informed decisions and properly manages its risks.

Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we have identified are reported in our 2020/21 Annual Auditors Report and are detailed in the first section below, along with the further procedures we will perform. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the following page.

Risks of significant weakness

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

Financial Sustainability - Medium Term Financial Plan

The Council should give acute attention 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.

Financial Sustainability – Experienced Resources

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.

Governance – Financial Monitoring

The Council should ensure regular and sufficiently detailed budget monitoring is reported to the Committee/Council on a minimum of a quarterly basis and be included in performance reviews for individuals.

Risks of significant VFM weaknesses

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, 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.

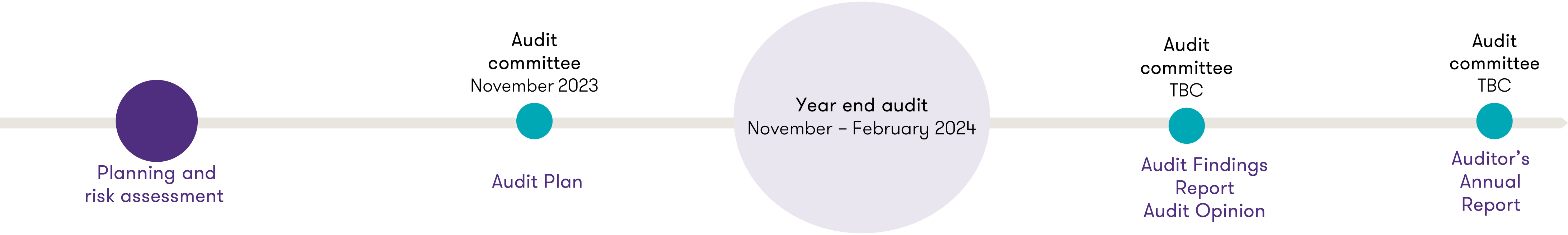
Key recommendation

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.

Audit logistics and team



Georgia Jones, Key Audit Partner

Key contact for senior management and Accounts and Audit. Georgia will oversee the implementation and delivery of the audit and will be the audit signatory. She will meet with senior management to help identify risks for the audit and provide advice and assistance as required.

Sophia Iqbal, Audit Manager

Sophia will work with senior members of the finance team ensuring testing is delivered and any accounting issues are addressed on a timely basis. She will also lead completion of the VFM assessment. She will attend Accounts and Audit Committee with Georgia and will undertake reviews of the team's work and draft clear, concise and understandable reports.

Jobelle Bongato, Audit Incharge

Jobelle will be the day-to-day contact for finance staff and is responsible for the day-to-day supervision of the audit team. She will regularly engage with the finance team to ensure there are no surprises arising from our work.

Audited Entity responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audited bodies. Where the elapsed time to complete an audit exceeds that agreed due to an entity not meeting its obligations, we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to an entity not meeting their obligations, we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to:

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

Audit fees and updated Auditing Standards including ISA 315 Revised

In 2017, PSAA awarded a contract of audit for Pendle Borough Council to begin with effect from 2018/19. The fee agreed in the contract was £30,956. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2022/23 audit. For details of the changes which impacted on years up to 2021/22 please see our prior year Audit Plans.

The major change impacting on our audit for 2022/23 is the introduction of ISA (UK) 315 (Revised) - Identifying and assessing the risks of material misstatement ('ISA 315'). There are a number of significant changes that will impact the nature and extent of our risk assessment procedures and the work we perform to respond to these identified risks. Key changes include:

- Enhanced requirements around understanding the Council's-IT Infrastructure and IT environment. From this we will then identify any risks arising from the use of IT. We are then required to identify the IT General Controls ('ITGCs') that address those risks and test the design and implementation of ITGCs that address the risks arising from the use of IT.
- Additional documentation of our understanding of the Council's business model, which may result in us needing to perform additional inquiries to understand the Council's end-to-end processes over more classes of transactions, balances and disclosures.
- We are required to identify controls within a business process and identify which of those controls are controls relevant to the audit. These include, but are not limited to, controls over significant risks and journal entries. We will need to identify the risks arising from the use of IT and the general IT controls (ITGCs) as part of obtaining an understanding of relevant controls.
- Where we do not test the operating effectiveness of controls, the assessment of risk will be the inherent risk, this means that our sample sizes may be larger than in previous years.

These are significant changes which will require us to increase the scope, nature and extent of our audit documentation, particularly in respect of your business processes, and your IT controls. We will be unable to determine the full fee impact until we have undertaken further work in respect of the above areas. However, for an authority of your size, we estimate an initial increase of £3,000. We will let you know if our work in respect of business processes and IT controls identifies any issues requiring further audit testing. There is likely to be an ongoing requirement for a fee increase in future years, although we are unable yet to quantify that.

The other major change to Auditing Standards in 2022/23 is in respect of ISA 240 which deals with the auditor's responsibilities relating to fraud in an audit of financial statements. This Standard gives more prominence to the risk of fraud in the audit planning process. We will let you know during the course of the audit should we be required to undertake any additional work in this area which will impact on your fee.

Taking into account the above, our proposed work and fee for 2022/23, as set out below, is detailed overleaf [and has been agreed with the Director of Finance].

Audit fees

.

	Actual Fee 2020/21	Actual Fee 2021/22	Proposed fee 2022/23
Pendle Borough Council Audit	£96,185	£92,385	£70,886
Total audit fees (excluding VAT)	**£96,185**	**£92,385**	**£70,886**

Assumptions

In setting the above fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard (revised 2019) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Audit fees – detailed analysis

Scale fee published by PSAA 2019	£38,036
Reduced materiality	£3,000
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, errors in accounts 21-22)	£4,000
Enhanced audit procedures for Payroll – Change in Circumstances	£500
Enhanced audit procedures for Collection Fund – relief testing	£750
Increased audit requirements of ISAs 315	£3,000
HB testing	£7,500
Total audit fees 2021/22 (excluding VAT)	**£70,886**

All variations to the scale fee will need to be approved by PSAA

Independence and non-audit services

Auditor independence

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

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard (Revised 2019) 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

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

Other services

There are no other services provided by Grant Thornton UK LLP.

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters	•	
Confirmation of independence and objectivity of the firm, the engagement team members and all other indirectly covered persons	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud(deliberate manipulation) involving management and/or which results in material misstatement of the financial statements (not typically council tax fraud)		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), 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.

Grant Thornton

grantthornton.co.uk