

# Informing the audit risk assessment for Pendle Borough Council 2023/24



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 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 your business or any 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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## Purpose

The purpose of this report is to contribute towards the effective two-way communication between Pendle Borough Council's external auditors and Pendle Borough Council's Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit Committee under auditing standards.

## Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Audit Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit Committee and supports the Audit Committee in fulfilling its responsibilities in relation to the financial reporting process.

## Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and Pendle Borough Council's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties,
- Going Concern, and
- Accounting Estimates.

## Purpose

This report includes a series of questions on each of these areas and the response we have received from Pendle Borough Council's management. The Audit Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

# General Enquiries of Management

Question	Management response
<p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2023/24?</p>	<p>The council continues to administer major capital schemes under Levelling-Up Funding and Town Deal, as well as other grant schemes (e.g. Household Support Fund, Disabled Facilities Grants etc)</p>
<p>2. Have you considered the appropriateness of the accounting policies adopted by Pendle Borough Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?</p>	<p>The Council has reviewed the Accounting Policies that will be used in the preparation of the Statement of Accounts. These were approved by the Accounts and Audit Committee on 19th March 2024. There was one change to the policy with the addition of straight-line depreciation for Vehicles, plant &amp; equipment assets.</p>
<p>3. Is there any use of financial instruments, including derivatives? If so, please explain</p>	<p>The use of Financial Instruments is determined by the Council's Treasury Management Policy and Strategy. The Council does use Financial Instruments but of a typical nature, eg PWLB loans. There is no use of derivatives.</p>
<p>4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?</p>	<p>There have been no transactions outside the normal course of the Council's business.</p>

# General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets? If so, what are they?	None that are likely to have a material impact on the Council's non-current assets as at the Balance Sheet date.
6. Are you aware of any guarantee contracts? If so, please provide further details	None.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements? If so, please provide further details	None that are considered material and that will affect the reported financial position of the Council.
8. Other than in house solicitors, can you provide details of those solicitors utilised by Pendle Borough Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	<p>The Council has used Solicitors in the normal course of its activities. This includes, for example, advising on legal agreements to do with the acquisition and disposals of land and property interests, contracting with suppliers to deliver services etc.</p> <p>External counsel engaged in ligation regarding non-payment on NNDR – Opened Oct 2023.</p>

# General Enquiries of Management

Question	Management response
9. Have any of the Pendle Borough Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? If so, please provide further details	None that are known.
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	<p>The Council has used a range of Advisors during the course of its normal activities. None of these are likely to have a material impact on the financial information reported in the financial statements.</p> <p>Examples of these include:-</p> <ul style="list-style-type: none"> <li>- Link Treasury Services – who provide advice to the Council on Treasury Management activities</li> <li>- Alliance Leisure Services Ltd – Strategic Leisure Review</li> <li>- Analyse Local – Business Rates Appeals Provision</li> <li>- Optimised Environments Ltd– Town Masterplans</li> </ul>
11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details	Provisions on loans to Joint Ventures are already in place.



## General Enquiries of Management

Question	Management response
<p>12. Has the Cost-of-Living Crisis and Inflation impacted Pendle Borough Council's operations and finances if so, what mitigating actions have been taken?</p>	<p>The most significant impact on the council's finances, over which there is a level of control, are increases to fuel, utility prices and insurance. The council has moved many of its vehicle fleet onto alternative fuel, we have added as many sites as possible to a grouped account with our utility providers, and has reviewed insurance levels.</p>
<p>13. Have you considered the adaption of IFRS 16 for the year 2023/24?</p>	<p>The Council has begun work on the IFRS16 accounting requirements, which will be adopted in 2024/25 as prescribed.</p>

# Fraud

## Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit Committee and management. Management, with the oversight of the Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Pendle Borough Council's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Audit Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from Pendle Borough Council's management

# Fraud risk assessment

Question	Management response
<p>1. Has Pendle Borough Council assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do Pendle Borough Council's risk management processes link to financial reporting?</p>	<p>In support of the information presented in the financial statements, the Council has in place strong corporate governance arrangements for the prevention and detection of fraud that might lead to a material misstatement of the financial statements.</p> <p>Annually, the Council reviews its internal control framework in a range of areas. In particular, the Council undertakes a risk-based approach to the development of its Internal Audit Strategy and the delivery of an Annual Internal Plan. The basis of the development of the plan is an Audit Needs Analysis for each auditable area and this takes into consideration the risk of fraud in the Council's activities, particularly those where the risk of fraud is considered to be greatest and plans audit resources appropriately. Details of the Internal Audit Strategy and the Annual Internal Plan are reported to the Accounts and Audit Committee on a regular basis. Equally, the Accounts and Audit Committee receive an Annual Internal Audit Report in which the Head of Internal Audit provides an opinion on the internal control system</p> <p>At the same time, the Chief Finance Officer undertakes an annual review of the effectiveness of the Council's system of internal controls, including the role of internal audit, to provide the Accounts and Audit Committee with assurance (or otherwise) that the system has operated effectively during the year.</p> <p>The Council's Risk Management processes are based upon a Risk Management Policy and Strategy. Both Policy and Strategy are kept under review. In support of this, the Council maintains a Strategic Risk Register which incorporates a range of risks associated with financial matters.</p> <p>At the same, the Council has robust budget monitoring and closure of accounts processes that highlight and provide explanations for variances in actual income and expenditure compared to budget. With this, there is a clear understanding of the materiality of budgets and their impact on the financial position of the Council.</p>

# Fraud risk assessment

Question	Management response
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>Fixed Assets (recording of asset acquisitions and disposals, valuation of land and buildings)</p> <p>Current Assets/Liabilities (revenue recognition, cash transactions, estimate of debtors and creditors, provisions for losses, valuation of arrears etc)</p> <p>Expenditure (nature of expenditure, material amounts etc)</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Pendle Borough Council as a whole, or within specific departments since 1 April 2023? If so, please provide details</p>	<p>None that are considered material in the context of the Council's Statement of Accounts.</p>

## Fraud risk assessment

Question	Management response
<p>4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>Matters of risk are report to the Council's Policy and Resources Committee as part of a quarterly Strategic Monitoring Report. The Risk Management Policy, Strategy and the detailed Strategic Risk Register are reported to the Accounts and Audit Committee on a regular basis.</p>
<p>5. Have you identified any specific fraud risks? If so, please provide details</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within Pendle Borough Council where fraud is more likely to occur?</p>	<p>As part of the development of the Strategic Internal Audit Plan, from which the annual internal plan is derived, the potential for fraud is one matter that is considered in risk-based approach to the allocation of audit resources.</p> <p>None that are not part of the normal operation of a multi-faceted Organisation.</p>
<p>6. What processes do Pendle Borough Council have in place to identify and respond to risks of fraud?</p>	<p>The Council has in place a robust Corporate Governance Framework</p>

# Fraud risk assessment

Question	Management response
<p>7. How do you assess the overall control environment for Pendle Borough Council, including:</p> <ul style="list-style-type: none"> <li>the existence of internal controls, including segregation of duties; and</li> <li>the process for reviewing the effectiveness the system of internal control?</li> </ul> <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken? What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)? If so, please provide details</p>	<p>Annually, the Council reviews its internal control framework in a range of areas. In particular, the Council undertakes a risk-based approach to the development of its Internal Audit Strategy and the delivery of an Annual Internal Plan. The basis of the development of the plan is an Audit Needs Analysis for each auditable area and this takes into consideration the risk of fraud in the Council's activities, particularly those where the risk of fraud is considered to be greatest and plans audit resources appropriately. Details of the Internal Audit Strategy and the Annual Internal Plan are reported to the Accounts and Audit Committee on a regular basis. Equally, the Accounts and Audit Committee receive an Annual Internal Audit Report in which the Head of Internal Audit provides an opinion on the internal control system.</p> <p>The Council's Employees are provided with an annual reminder of Anti-Fraud policies in the course of the work they do on behalf of the Council. Where there is alleged fraud, theft or corruption, appropriate investigations are undertaken either by Internal Audit or by an appointed Senior Manager. The outcome of these investigations are considered by Senior Management and, where necessary, by the Accounts and Audit Committee.</p> <p>None known.</p>
<p>8. Are there any areas where there is potential for misreporting? If so, please provide details</p>	<p>There are no known material areas to be high risk where there is a potential for misreporting.</p>

# Fraud risk assessment

Question	Management response
<p>9. How does Pendle Borough Council communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>9a. How do you encourage staff to report their concerns about fraud?</p> <p>9b. What concerns are staff expected to report about fraud? Have any significant issues been reported? If so, please provide details</p>	<p>The Council maintains a Local Code of Corporate Governance based on the CIPFA/Solace Framework. This captures all facets of the Council's Corporate Governance arrangements. At the heart of how the Council operates is the Constitution which comprises information on how the Council operates including the role of the Council and Committees, Rules of Procedure (including Financial and Contract Procedure Rules) and various Codes and Protocols.</p> <p>These Codes and Protocols include both a Member Code of Conduct, a Code of Conduct for Employees and the Roles of a Councillors which define how Members and Officers of the Council should behave. These cover matters such as dealing with Contractors, tenders, use of financial or other Council resources etc, register of interests.</p> <p>As indicated above, these Codes and Protocols are accompanied with Anti-Fraud, Theft and Corruption Policy, Anti-Money Laundering Policy and Anti-Bribery Policy.</p> <p>The Council has agreed a Whistleblowing Policy and Procedure. Staff who suspect fraud are encouraged to raise their concerns in confidence by following this Policy and Procedure. None.</p>

# Fraud risk assessment

Question	Management response
<p>10. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>10a. How are the risks relating to these posts identified, assessed and managed?</p>	<p>Senior Officers and Members who have powers to influence decision making are potentially the highest risk posts in respect of fraud and corruption. They are, however, bound by the Council's Constitution (and within that relevant Codes of Conduct).</p> <p>The nature of some posts, where staff have responsibility for assets (vehicles, stocks, cash etc), might be considered an areas where there is potential for fraud/theft. However, it is considered that Management has put in place adequate internal controls to reduce risk in these areas.</p> <p>All staff operate within the governance frameworks established by the Council. Staff receive an induction at the start of their employment with the Council and thereafter are regularly reminded about matters such as fraud, theft and corruption (indeed, there is an annual reminder of the Council's policies on these matters which is issued to all staff).</p> <p>Areas where the potential for fraud is considered to be the greatest are subject to regular internal audit. Internal Audit will check the internal controls put in place by Management to those that are meant to be place and report on the adequacy and effectiveness of those controls.</p>
<p>11. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? If so, please provide details</p> <p>11a. How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>Related party interests are disclosed in the Council's Statement of Accounts.</p> <p>The Council requires both Councillors and Officers to declare any pecuniary interests they have in relation to the activities they conduct on behalf of the Council. In particular, Councillors are required to declare interests on appointment as a Councillors and thereafter when such interests change. These interests are published on the Council's website. Equally, Councillors are required to declare such interests at the start of Committee meetings where any items being discussed relate to them.</p>



## Fraud risk assessment

Question	Management response
<p>12. What arrangements are in place to report fraud issues and risks to the Audit Committee?</p> <p>11a. How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>11b. What has been the outcome of these arrangements so far this year?</p>	<p>In the course of a normal year, a report on the Council's activities to prevent, detect and deal with Theft, Fraud and Corruptions is submitted to each Accounts and Audit Committee. This includes details of any alleged frauds, actions in relation to the National Fraud Initiative and information on Benefit fraud activity. The Committee also receives the Annual Governance Statement, the Annual Internal Audit Report and regular updates on governance and internal audit activity. In relation to the activities of Internal Audit, the Committee is provided with information on the outcome of Internal Audit's work, any associated risks/fraud matters and any breaches of internal control.</p> <p>The arrangements appear to work well.</p>
<p>13. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>None.</p>
<p>14. Have any reports been made under the Bribery Act? If so, please provide details</p>	<p>None.</p>

# Law and regulations

## Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit Committee, is responsible for ensuring that Pendle Borough Council's operations are conducted in accordance with laws and regulations, including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit Committee as to whether the body is in compliance with laws and regulations. Where we become aware of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

# Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>1a. What arrangements does Pendle Borough Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>1b. Are you aware of any changes to Pendle Borough Council's regulatory environment that may have a significant impact on Pendle Borough Council's financial statements?</p>	<p>The Council has an approved Constitution that sets out the roles, responsibilities and functions of the Council, its Committees, Councillors and Officers. The Constitution is reviewed on a regular basis and its operation is reviewed as part of the Local Code of Corporate Governance.</p> <p>The Council has designated the Head of Legal and Democratic Services as the Council's Monitoring Officer. The Monitoring Officer has access to all reports (indeed is consulted on all reports) that are considered by Management Team, Committees and Council. The Head of Legal Services is the Deputy Monitoring Officer.</p> <p>Where appropriate, the Monitoring Officer and Services Heads will obtain external advice on matters that will be used to inform advice given to Council and/or Committees.</p> <p>There are no known changes in the regulatory environment that may have a significant impact on the Council's Financial Statements.</p>

## Impact of laws and regulations

Question	Management response
2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?	<p>The Accounts and Audit Committee receive regular reports on the Council's governance arrangements as they operate within the context of the CIPFA/Solace Corporate Governance Framework.</p> <p>At least annually, the Council undertakes a review of its Governance arrangements, including compliance with laws and regulations. The Local Code of Corporate Governance is reviewed on a quarterly basis and any changes/updates are reported to the Committee.</p> <p>Annually, the Council provides a letter of representation to the External Auditors providing the basis on which various matters have been considered in the context of the financial statements. Senior Managers, including the Monitoring Officer and the in-house Solicitor, are each asked to confirm the representations to the Chief Finance Officer before the Council's letter of representations is signed off by the Accounts and Audit Committee.</p>
3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2023 with an on-going impact on the 2023/24 financial statements? If so, please provide details	None that are known.
4. Are there any actual or potential litigation or claims that would affect the financial statements? If so, please provide details	None that are known.

## Impact of laws and regulations

Question	Management response
<p>5. What arrangements does Pendle Borough Council have in place to identify, evaluate and account for litigation or claims?</p>	<p>Aside from normal insurance claims, which are dealt with by the Council's Insurers, claims are directed to the Council's Corporate Director (as Monitoring Officer) and/or Legal Team for consideration and, where necessary, actions.</p> <p>The Council has in place robust decision-making processes. Decisions taken by the Council and/or Committees are based on reports which are reviewed by either the Corporate Director and/or an in-house Solicitor to ensure that actions taken by the Council are lawful.</p>
<p>6. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance? If so, please provide details</p>	<p>None that are known.</p>

# Related Parties

## Matters in relation to Related Parties

Pendle Borough Council are required to disclose transactions with bodies/individuals that would be classed as related parties. These may include:

- bodies that directly, or indirectly through one or more intermediaries, control, or are controlled by Pendle Borough Council;
- associates;
- joint ventures;
- a body that has an interest in the authority that gives it significant influence over the Pendle Borough Council;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Pendle Borough Council, or of any body that is a related party of Pendle Borough Council.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the [type of body]'s perspective but material from a related party viewpoint then Pendle Borough Council must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

## Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties including those disclosed in Pendle Borough Council's 2023/24 financial statements?</p> <p>If so please summarise:</p> <ul style="list-style-type: none"> <li>the nature of the relationship between these related parties and Pendle Borough Council</li> <li>Whether Pendle Borough Council has entered into or plans to enter into any transactions with these related parties</li> <li>the type and purpose of these transactions</li> </ul>	<p>There have been no known changes in the related party transactions at the time of writing (July 2024)</p>
<p>2. What controls does Pendle Borough Council have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>The Member Code of Conduct requires Councillors to register and declare pecuniary and non pecuniary interests. By law, this must be done within 28 days of taking office. This register of interests is published on the Council's website and it is the responsibility of individual Councillors to maintain this register of interests. Equally, Councillors may be required to disclose such interests at meetings if a matter in which they have such an interest is being considered on the Agenda for the meeting.</p> <p>Similarly, the Employee Code of Conduct requires employees to disclose (and therefore not participate in any decision making) matters in which they have an interest.</p> <p>Annually, as part of the development of the note on Related Party Transactions, staff within the Finance Service will seek confirmation from Councillors and Senior Managers of any such related party transactions so that these can be disclosed as appropriate in the Statement of Accounts.</p>

## Related Parties

Question	Management response
3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?	In such circumstances, reports are submitted to the appropriate Committee of the Council where full disclosure of the circumstances would be made.
4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?	As above.



# Going Concern

## Matters in relation to Going Concern

The audit approach for going concern is based on the requirements of ISA (UK) 570, as interpreted by Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020). It also takes into account the National Audit Office's Supplementary Guidance Note (SGN) 01: Going Concern – Auditors' responsibilities for local public bodies.

Practice Note 10 confirms that in many (but not all) public sector bodies, 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 body'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.

For this reason, a straightforward and standardised approach to compliance with ISA (UK) 570 will often be appropriate for public sector bodies. This will be a proportionate approach to going concern based on the body's circumstances and the applicable financial reporting framework. In line with Practice Note 10, the auditor's assessment of going concern should take account of the statutory nature of the body and the fact that the financial reporting framework for local government bodies presume going concern in the event of anticipated continuation of provision of the services provided by the body. Therefore, the public sector auditor applies a 'continued provision of service approach', unless there is clear evidence to the contrary. This would also apply even where those services are planned to transfer to another body, as in such circumstances, the underlying services will continue.

For many public sector bodies, the financial sustainability of the body and the services it provides are more likely to be of significant public interest than the application of the going concern basis of accounting. Financial sustainability is a key component of value for money work and it is through such work that it will be considered.

# Going Concern

Question	Management response
1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by Pendle Borough Council will no longer continue?	Leadership intelligence gathering from DCN, Professional bodies, LCFOs, Strategic Partners. Reviewing the MTFP and the funding requirements and the need to review budget service envelope.
2. Are management aware of any factors which may mean for Pendle Borough Council that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?	No discontinuation is foreseen
3. With regard to the statutory services currently provided by Pendle Borough Council does Pendle Borough Council expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for Pendle Borough Council to cease to exist?	No discontinuation is foreseen
4. Are management satisfied that the financial reporting framework permits Pendle Borough Council to prepare its financial statements on a going concern basis? Are management satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial statements?	As set out in the report to Accounts and Audit Committee 19 <sup>th</sup> March 2024, Management is satisfied that the 2023-24 Financial Statements should be prepared on a going concern basis.

# Accounting estimates

## Matters in relation to accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess a body's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the body's risk management process identifies and addresses risks relating to accounting estimates;
- The body's information system as it relates to accounting estimates;
- The body's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

We would ask the Audit Committee to satisfy itself that the arrangements for accounting estimates are adequate.

# Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	The most material transactions will include Asset Valuations, Grant Income (particularly due to Covid-19), Provision for Losses, Valuation of the Defined Benefit Pension (asset and liabilities).
2. How does the Pendle Borough Council's risk management process identify and address risks relating to accounting estimates?	The Council has an agreed Risk Management Policy and Strategy. As part of the Council's approach to risk management, a Strategic Risk Register is maintained and updated on a quarterly basis. This sets out those strategic risks associated with the delivery of the Council's Strategic Objectives. The Council's Risk Management arrangements, including the detailed Strategic Risk Register are reported on a regular basis to the Accounts and Audit Committee. At the same time, details of the 'top ten' strategic risks faced by the Council are reported to the Policy and Resources Committee as part of the regular Strategic Monitoring Reports.
3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	Use of Statement of Recommended Accounting Practice, Code of Practice on Local Authority Accounting (and related Codes such as those for the Prudential Framework). CIPFAs Closedown Guidance Auditor Guidance Notes
4. How do management review the outcomes of previous accounting estimates?	The Council considers previous methodologies from one year to the next, refers to Audit Findings Reports, considers changes in the Code of Practice for Local Authority Accounting (where appropriate)
5. Were any changes made to the estimation processes in 2023/24 and, if so, what was the reason for these?	No specific changes have been made to the estimation processes for 2023/24.

# Accounting Estimates - General Enquiries of Management

Question	Management response
<p>6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?</p>	<p>In the case of specific Accounting Estimates, e.g. Pensions, Fair Value Assessments, Asset Valuations, the Council will use qualified professionals who have specialist knowledge and expertise to advise on/produce those estimates for use in the financial statements.</p>
<p>7. How does the Pendle Borough Council determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?</p>	<p>The Council applies the requirements of the Statement of Recommended Practice, the Code of Practice on Local Authority Accounting and other related guidance, attendance at seminars and workshops.</p>
<p>8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?</p>	<p>Management review the assumptions used and output from service providers for compliance with Accounting Policies and for general reasonableness, providing challenge in both cases where it is considered necessary to do so. Equally, Management consider the application of the various Codes of Practice, historical experience, current trends to determine whether the accounting estimates produced reflect a true and fair view of the Council's financial position at the Balance Sheet date.</p>
<p>9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including:</p> <ul style="list-style-type: none"> <li>- Management's process for making significant accounting estimates</li> <li>- The methods and models used</li> <li>- The resultant accounting estimates included in the financial statements.</li> </ul>	<p>Ultimately, the Council's Section 151 Officer provides oversight of the preparation of the financial statements and the accounting estimates contained therein. This is underpinned by an experienced Finance Team comprising CIPFA qualified Accountants who have knowledge of the relevant Accounting Codes of Practice.</p> <p>The financial statements will be the subject of a thorough quality assurance process before they are signed off by the Chief Finance Officer. This will include completion of CIPFA Disclosure Checklist the year and an assessment that as present, the Statements present a true and fair view of the Council's position at the Balance Sheet date.</p>

# Accounting Estimates - General Enquiries of Management

Question	Management response
10. Are management aware of any transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)? If so, what are they?	None
11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?	Yes.
12. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?	<p>The Accounts and Audit Committee give approval to the Accounting Policies on which the financial statements are prepared.</p> <p>The Committee receives various reports throughout the year on matters of governance and internal control that provide them with the assurance that the framework in which the financial statements are produced is robust and they should be free from material misstatement. This is articulated in the Annual Governance Statement, signed by the Leader of the Council and the Chief Executive, which sets out what governance arrangements exist at the Council, how they have operated during the year and what, if any, significant governance issues there are to address.</p> <p>The financial statements include a statement from the Section 151 Officer on the Council's responsibilities for the Statement of Accounts and specifically states that 'in preparing the Statement of Accounts, [the S151 has] made judgements and estimates that were reasonable and prudent'. The Committee is therefore asked to take assurance from the S151 in this regard.</p> <p>Finally, the Committee receives qualified assurance from the External Auditor on aspects of the accounting estimates as part of their Audit Findings Report.</p>

## Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Land and buildings valuations	Valued in accordance with RICS and CIPFA Guidance	Close working between Property Experts at Liberata UK Ltd and the Council's Accountancy Team	Yes, Liberata UK Ltd (as the Council's Property Advisors)	Various – see disclosure in Statement of Accounts	No
Fair Value Assets	Valued in accordance with RICS and CIPFA Guidance	Close working between Property Experts at Liberata UK Ltd and the Council's Accountancy Team	Yes, Liberata UK Ltd (as the Council's Property Advisors)	Various – see disclosure in Statement of Accounts	No
Depreciation and Amortisation	Reducing Balance and Straight Line Methods both used	Close working between Property Experts at Liberata UK Ltd and the Council's Accountancy Team	No	Rates of Depreciation vary according to the nature of the asset, length of useful life etc.	Yes – Straight Line added
Provisions	Assessment of outstanding appeals according to the Check, Challenge, Appeal data provided by the Valuation Office	Officer judgement in the context of estimates provided by Analyse Local.	The Council uses Analyse Local to inform the development of its provision for appeals on Business Rates	Based on an assessment around likelihood of success of appeal using advice from Analyse Local.	None.

## Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Valuation of defined benefit net pension fund liabilities	Assets in the Balance Sheet are shown at Fair Value	Pension Fund Assets and Liabilities are subject to a separate External Audit	The Council relies on the Actuary to the Lancashire County Pendle Fund for these estimates.	Various – See disclosure in Statement of Accounts	No
Accruals	Normal Accounting Procedures in accordance with Local Authority Statement of Recommended Practice	Management Accounts	No	Based on anticipated income and expenditure compared to budget estimates	None
Credit loss and impairment allowances	n/a	n/a	n/a	n/a	n/a
Finance lease liabilities	n/a	n/a	n/a	n/a	n/a





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