

The Audit Findings for South Ribble Borough Council

Year ended 31 March 2013

September 2013

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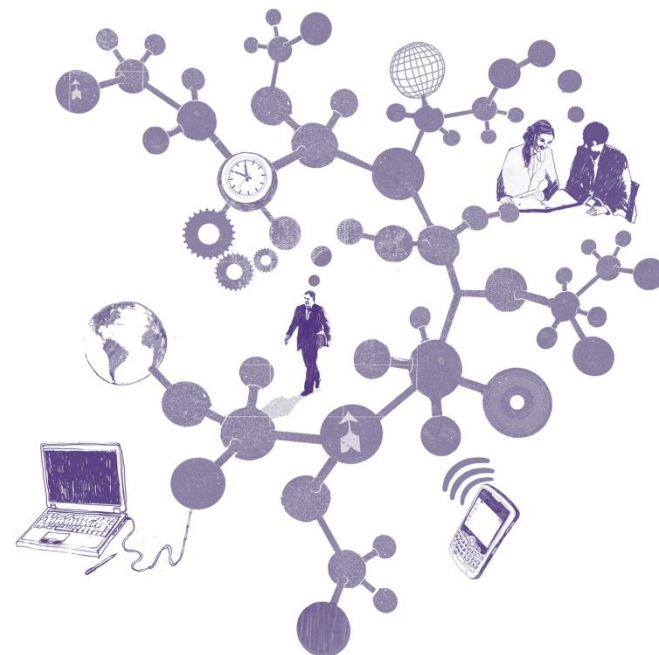
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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

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.

Contents

Section	Page
1. Executive summary	4-6
2. Audit findings	7-15
3. Value for Money	16-18
4. Fees, non audit services and independence	19-20
5. Communication of audit matters	21-22
Appendix	
A Audit opinion	23-25

Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of South Ribble Borough Council's ('the Council') financial statements for the year ended 31 March 2013. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan, which was presented to the April Governance Committee.

Our audit is substantially complete although we are finalising our work in the following areas:

- review of the final version of the financial statements
- obtaining and reviewing the final management letter of representation
- obtaining and reviewing the letter of assurance from the auditor of the pension fund relating to the audit of Lancashire County Council Pension Fund

- updating our post balance sheet events review, to the date of signing the opinion
- Whole of Government Accounts
- awaiting responses to a small number of outstanding queries.

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion on the financial statements.

We have not identified any adjustments affecting the Council's reported financial position. A small number of presentational and disclosure changes have been made to the financial statements to improve clarity, compliance with CIPFA's Code of Practice on Local Authority Accounting and to correct referencing inconsistencies.

Further details are set out in section 2 of this report.

Value for money conclusion

We are pleased to report that, based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VFM conclusion.

The Council successfully delivered its efficiency target of £0.64m in 2012/13 and has agreed a budget plan for 2013-14 and 2016-17 which includes revisions arising from the latest local government settlement.

The Plan identified a requirement for £2.7m of savings. Further work is required to meet the budget gap and to provide greater certainty of the financial position for 2014-15 onwards. The Council has made a good start in identifying those areas which can contribute towards funding the shortfall.

Further detail of our work on Value for Money is set out in section 3 of this report

Whole of Government Accounts (WGA)

We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable

Controls

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council. Our work has not identified any significant control weaknesses which we wish to highlight for your attention.

Further details are provided within section 2 of this report.

The way forward

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Head of Finance and the Chief Executive

The Council, along with all other authorities, is faced with the continuing challenge of finding further savings which will become increasingly difficult. The need for robust governance and financial planning and management in local government is greater than ever. South Ribble is well placed in this respect but will need to continue to keep this under review to ensure it can continue to respond effectively

Acknowledgment

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
September 2013

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Governance Committee on 29th April 2013. We also set out the adjustments to the financial statements from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you.

Audit opinion

We anticipate that we will provide the Council with an unmodified opinion. Our audit opinion is set out in Appendix A.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to 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 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	Improper revenue recognition Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition	<ul style="list-style-type: none">• Review of revenue recognition policies• Testing of material revenue streams	Our audit work has not identified any issues in respect of revenue recognition.
2.	Management override of controls Under ISA 240 there is a presumed risk of management over-ride of controls	<ul style="list-style-type: none">• Identification of controls in place to prevent management over-ride• Review of accounting estimates, judgments and decisions made by management• Testing of journal entries• Review of unusual significant transactions	<p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses	Operating expenses understated	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess whether those controls are designed effectively • controls testing • sample tested operating expenses. 	Our audit work has not identified any significant issues in relation to the risk identified.
Operating expenses	Creditors understated or not recorded in the correct period	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • controls testing • sample tested year end creditors. 	Our audit work has not identified any significant issues in relation to the risk identified.
Employee remuneration	Remuneration expenses not correct	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • sample testing of payroll expenditure • predictive analytical review to compare actual staff costs to our estimate. 	Our audit work has not identified any significant issues in relation to the risk identified.




Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.



Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Welfare expenditure	Welfare benefits improperly computed	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none">• documented our understanding of processes and key controls over the transaction cycle• undertaken walkthrough of the key controls to assess whether those controls are designed effectively• sample testing of individual housing and council tax benefit claims.	Our audit work has not identified any significant issues in relation to the risk identified.

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	Accounting Policies Note 1 states that the income is accounted for in the period to which it relates regardless of when the cash is received.	The recognition of revenue by the Council is in line with recognised accounting guidance and in line with CIPFA's recommended approach.	
Judgements and estimates	Key estimates and judgements include: <ul style="list-style-type: none"> – useful life of capital equipment – pension fund valuations and settlements – revaluations – Impairments 	The judgements and estimates included within the financial statements have been based on a sound rationale. The judgements and estimates are supported where necessary by advice given by professional experts including KJ Property Consultancy and Mercers who provide assurance around the asset lives and valuations and the pension fund respectively.	
Other accounting policies	We have reviewed the Council's other accounting policies against the requirements of the CIPFA Code and accounting standards.	Our review of accounting policies has not highlighted any significant issues which we wish to bring to your attention.	

Assessment

-  Marginal accounting policy which could potentially attract attention from regulators
-  Accounting policy appropriate and disclosures sufficient

-  Accounting policy appropriate but scope for improved disclosure

Misclassifications & disclosure changes

A small number of presentational and disclosure changes have been made to the financial statements to improve clarity, compliance with CIPFA's Code of Practice on Local Authority Accounting and to correct referencing inconsistencies. Amendments were made to the explanatory foreword and notes 4,15a,15c,40a,43d and 46.

In addition the Council has amended its accounting policies note to ensure the accounting policy on property, plant and equipment measurement is consistent with Note 12 and the note on revenue recognition policy is consistent with CIPFA's Code of Practice on Local Authority Accounting Guidance Notes for Practitioners.

Adjusted misstatements

We are required to report all misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. There were no adjusted mis-statements made to the primary financial statements.

Unadjusted misstatements

We are also required to report to those charged with governance, any non trivial unadjusted misstatements. There were no unadjusted mis-statements made to the primary financial statements.

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Our work has not identified any significant control weaknesses which we wish to highlight for your attention.

Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Governance Committee. We have not been made aware of any incidents in the period and no issues have been identified during the course of our audit procedures.
2.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Council. There is nothing contained within the letter that prevents us from issuing our financial statements opinion.
4.	Disclosures	<ul style="list-style-type: none"> Management have amended the financial statements narrative notes in response to all our suggestions and recommendations.
5.	Matters in relation to related parties	<ul style="list-style-type: none"> The financial statements include a note summarising any related party transactions the Council has undertaken during the year (Note 38). In order to verify the accurately of the note, the Council should run a creditors report to identify any transactions in respect of interests declared by Members and Officers. For the last three years this report has not been run as part of the accounts preparation process. Again this year a similar report had not been produced. This has now been subsequently done confirming no material related party transactions. It remains important that agreed prior year recommendations are considered each year as part of the following years closedown plan.
6.	Going concern	<ul style="list-style-type: none"> Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.

Section 3: Value for Money

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Value for Money

Value for Money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VFM conclusion based on the following two criteria specified by the Audit Commission which support our reporting responsibilities under the Code.

- **The Council has proper arrangements in place for securing financial resilience.** The Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
- **The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.** The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the following three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and

- Financial control

Overall, our work highlighted that the Council's current arrangements for securing financial resilience are good. The Council has a good track record of achieving its budget and its cost savings requirements. A surplus of £0.7m was achieved during 2012/13 whilst also delivering efficiency savings of £0.6m.

The Council's medium term financial strategy focuses on delivering year on year efficiencies and additional income as well as support from the General Fund Reserve to help fund the budget gap. Given the relatively healthy position of reserves and balances at the Council a more measured and considered approach to identifying efficiencies is undertaken by South Ribble. As part of the transformation programme detailed service reviews are undertaken on each service where proposals for savings are identified.

Our separate Financial Resilience report provides further detail on the Council's arrangements.

Challenging economy, efficiency and effectiveness

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within.

The Council has adopted a corporate approach to identifying savings. South Ribble continues to achieve savings through improved processes, negotiations with contractors and having an excellent understanding of its costs. Performance monitoring shows that the Council has achieved its target efficiency savings for 2012/13 without having a detrimental impact on performance with 95% of the Council's corporate performance targets met.

Value for Money

In addition 97% of residents sampled in the Council's corporate survey were satisfied with the Council.

Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013

Section 4: Fees, non audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Fees, non audit services and independence

We confirm below our final fees charged for the audit.

Fees

	Per Audit plan £	Actual fees £
Council audit	57,664	57,664
Grant certification	12,100	12,100
Total audit fees	69,764	69,764

Fees for other services

Service	Fees £
None	Nil

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Communication of audit matters to those charged with governance

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

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

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 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	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
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	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Audit opinion

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTH RIBBLE BOROUGH COUNCIL

Opinion on the Authority financial statements

We have audited the financial statements of South Ribble Borough Council for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of South Ribble Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of Responsibilities, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements

In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of South Ribble Borough Council as at 31 March 2013 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

Conclusion on the Authority’s arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

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

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, we are satisfied that, in all significant respects, South Ribble Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

Certificate

We certify that we have completed the audit of the financial statements of South Ribble Borough Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Fiona Blatcher
Associate Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

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September 2013



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