

The Annual Audit Letter for South Ribble Borough Council

Year ending 31 March 2016

January 2017

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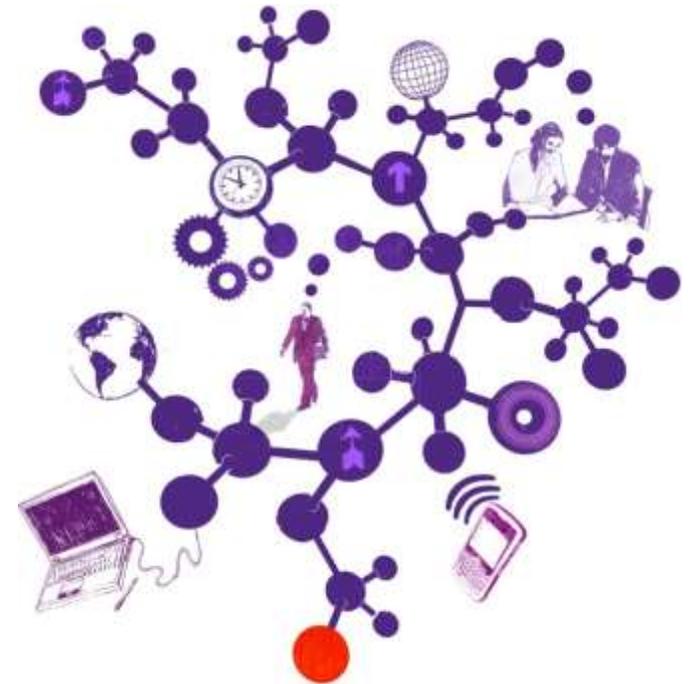
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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at South Ribble Borough Council (the Council) for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to the Council and its external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Governance Committee as those charged with governance in our Audit Findings Report on 21 September 2016. We also provided updates to officers and members on the progress of our audit at the Governance Committee meetings on the 23 November and 14 December 2016.

Our responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's accounts on 15 December 2016. The audit opinion was given after the Special Meeting of the Governance Committee on 14 December 2016.

Value for money conclusion

We gave a qualified "except for" opinion on the Council's arrangements for securing economy, efficiency and effectiveness on 15 December 2016. We identified the following matter:

The Scrutiny Panel report outlining the circumstances surrounding the commissioning of a review of the investigation of taxi licencing highlighted a number of serious governance failures. This matter was evidence of weaknesses in proper arrangements for acting in the public interest, through demonstrating and applying the principles and values of good governance.

On the basis of our work, except for the effects of the matter described above, we were satisfied that in all other significant respects the Council had put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

Executive summary

We will continue to monitor the progress on the delivery of the Council's action plan to address the recommendations included in the Scrutiny Committee report referred to above.

Part 8 of the Audit Commission Act refers to whether in the public interest, we should make a report on any matter coming to our notice in the course of the audit, in order for it to be considered by the body concerned or brought to the attention of the public, and whether the public interest requires any such matter to be made the subject of an immediate report rather than of a report to be made at the conclusion of the audit. We will continue to consider the use of these other statutory powers and duties in the context of progress made by the Council in response to the recommendations of the Scrutiny Committee report.

Certificate

We certified that we had completed the audit of the accounts of South Ribble Borough Council in accordance with the requirements of the Code on 15 December 2016.

Certification of grants

We also carried out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. The claim was certified, subject to a qualification letter and issued on 28 November 2016. We will report the results of this work to the Governance Committee in our Annual Certification Letter.

Working with the Council

The Council - in common with all local government bodies - continues to operate within an increasingly challenging financial environment. It is important that the Council continues to make tough decisions to help deliver savings and bridge the current funding gap.

We look forward to continuing to work with the Council as it tackles the financial challenges.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
January 2017

Audit of the accounts

Our audit approach

Materiality

In our audit of the Council's accounts, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Council's accounts to be £0.860m. We used this benchmark as, in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of materiality for certain areas such as officers' remuneration, audit remuneration and related party disclosures. We set a lower threshold of £0.043m above which we reported errors to the Governance Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes assessing whether:

- the Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts on which we give our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the accounts of South Ribble Borough Council

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>As part of our work we considered the risk factors set out in ISA240 and the nature of the revenue streams at South Ribble Borough Council, and determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none">• there is little incentive to manipulate revenue recognition;• opportunities to manipulate revenue recognition are very limited; and• the culture and ethical frameworks of local authorities, including South Ribble Borough Council, mean that all forms of fraud are seen as unacceptable. <p>Our audit work did not identify any issues in respect of revenue recognition.</p>
<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none">• documented the controls applied to journal entries;• tested journal entries;• reviewed accounting estimates, judgments and decisions made by management; and• reviewed any unusual significant transactions. <p>Our audit work did not identify any evidence of management over-ride of controls.</p>

Audit of the accounts of South Ribble Borough Council

Risks identified in our audit plan	How we responded to the risk
<p>Valuation of property, plant and equipment The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • reviewed management's processes and assumptions for the calculation of the estimate; • reviewed the competence, expertise and objectivity of any management experts used; • reviewed the instructions issued to valuation experts and the scope of their work; • reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding; • tested additions and revaluations made during the year to ensure they are input correctly into the Council's asset register; and finally, • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. <p>Our audit work did not identify any significant issues in relation to the risk identified, but did highlight some weaknesses as detailed below:</p> <ul style="list-style-type: none"> • the Council's asset register did not always have the correct asset life information resulting in depreciation being incorrectly calculated; • our walkthrough of the valuation process highlighted that the written valuation report for one asset could not be located; and, • there was no specification between the Council's Shared Financial Services section and the Council's valuer highlighting the assets required to be revalued in the year and any other issues required to be considered.
<p>Valuation of pension fund net liability The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • reviewed the controls put in place by management to ensure that the pension fund liability is not materially misstated; • reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation; • confirmed the reasonableness of the actuarial assumptions made; and, • reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. <p>We did not identify any issues to report.</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 15 December 2016. The audit opinion was given after the Special Meeting of the Governance Committee on the 14 December.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Council to the Council's Governance Committee on 21 September 2016.

In addition to the key audit risks reported above, the Council was not required to make any changes to the primary financial statements arising from the audit, and consequently there was no change to the reported financial position.

Annual Governance Statement and Narrative Report

We are also required to review the Council's Annual Governance Statement and Narrative Report. A revised Annual Governance Statement was submitted to the special Governance Committee meeting in December to include an action plan addressing the issues arising from the Scrutiny Committee report concerning the circumstances surrounding the commissioning of a review of the investigation of taxi licencing.

The revised Annual Governance Statement and Narrative Report were reviewed and were in line with the relevant guidance and were consistent with supporting evidence and with our knowledge of the Council.

Other statutory duties

We also have additional powers, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts

We did not use these powers in relation to the Council's 2015/16 accounts.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2015 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

As part of our work we saw evidence that the Council:

- continues to use business cases to support decision making for major projects. Recent examples include the tender of the Council's waste and recycling service, which went live in June 2015 and is designed to generate significant savings of £0.6m per annum over the life of the contract period; and
- continues to review ways of working smarter with partners. Highlighted examples include progress on the City Deal with Lancashire County Council and Preston City Council, and procurement of external mail services with Preston City Council and Lancaster City Council.

With regard to its finances the Council's out-turn position at the end of 2015/16 showed an underspend of £0.101m. The Council was also been successful in delivering budget savings of £0.606m whilst also maintaining services.

The Scrutiny Panel report outlining the circumstances surrounding the commissioning of a review of the investigation of taxi licencing highlighted a number of serious governance failures. This matter was evidence of weaknesses in proper arrangements for acting in the public interest, through demonstrating and applying the principles and values of good governance.

Overall conclusion

Based on the matters outlined above, we gave a qualified "except for" opinion on the Council's arrangements for securing economy, efficiency and effectiveness. We concluded that on the basis of our work, except for the findings of the scrutiny review referred to above, we were satisfied that in all other significant respects the Council had put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

Working with the Council

Our work with you in 2015/16

We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship. Together we have delivered some great outcomes.

An efficient audit – Our audit team are knowledgeable and experienced in your financial accounts and systems, as well of the key issues affecting the on-going running of the Council.

Improved financial processes – during the year we reviewed your financial systems and processes including employee remuneration, non- pay expenditure and property plant and equipment.

Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness, subject to the issues highlighted in our Audit Findings Report and in this Letter.

Providing training – we provided your Shared Financial Services team with training on early closedown of final accounts and the lessons learnt from elsewhere, to help you bring forward the production of your year end accounts.

Alternative delivery options desktop review on the allocation of council funds for affordable housing – we provided independent advice in relation to exploring options for the Council to deliver affordable housing directly or with a partner organisation, with budget implications, benefits and risks. The review also focused on identifying current and innovative

practice in the sector, and for each option their pros and cons, risks, and the generic practicalities of adoption and implementation for the Council.

Our work with you in 2016/17

Early final accounts closedown

The Audit and Accounts Regulations requirement to approve and publish the accounts by 31 May and 31 July respectively is fast approaching. We will continue to work with you sharing examples of best practice and will be holding a 2015/16 final accounts debrief session to discuss the lessons learnt and consider the processes and practices that are needed to achieve the deadlines by 2017/18.

Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit.

Fees

	Planned £	Actual fees £	2014/15 fees £
Statutory audit of Council	43,923	TBC	57,664
Less rebate *	-	-	(5,926)
Housing Benefit Grant Certification	7,128	TBC	9,290
Total fees (excluding VAT)	51,051	TBC	61,028

* A rebate of £5,926 was issued by the Audit Commission in October 2014.

Fees for other services

Service	Fees £
Non-audit services – Options Review on the Allocation of Council Funds for Affordable Housing	5,000

Reports issued

Report	Date issued
Options Review on the Allocation of Council Funds for Affordable Housing	January 2016
Certification Letter	January 2016
Audit Plan	March 2016
Audit Findings Report	September 2016
Annual Audit Letter	January 2017



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