

Governance Committee

Tuesday, 6th February, 2024, 6.00 pm

Shield Room, Civic Centre, West Paddock, Leyland PR25 1DH

Supplementary Agenda

Please note, agenda item 5 – Final Audit Findings Report has now been re-published to correct an error on one page of the report – see table on page 77 of the agenda pack - “D. Audit Adjustments – Continued”.

4 External Auditor's Report	(Pages 3 - 42)
Report of Grant Thornton.	
5 Final Audit Findings Report	(Pages 43 - 92)
Updated Report of Grant Thornton.	
6 Statement of Accounts 2022/23	(Pages 93 - 98)
Report of the Director of Finance.	

Chris Sinnott
Chief Executive

Electronic agendas sent to Members of the Governance Committee

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Auditor's Annual Report on South Ribble Borough Council

2022/23

January 2024

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Agenda Item 4





We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



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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 for the purpose of completing our work under the NAO Code and related guidance. Our audit is not designed to test all arrangements in respect of value for money. However, where, as part of our testing, we identify significant weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all irregularities, or to include all possible improvements in arrangements 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.

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Executive summary



Value for money arrangements and key recommendation(s)

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Auditors are required to report their commentary on the Council's arrangements under specified criteria and 2022/23 is the third year that we have reported our findings in this way. As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Where we identify significant weaknesses in arrangements, we are required to make recommendations so that the Council may set out actions to make improvements. Our conclusions are summarised in the table below. It should be noted that the significant weaknesses reported in 2021/22 were only reported to the Council in August 2023 due to the time it took to fully explore those areas. The weaknesses were therefore still in place in 2022/23 and so are re-reported. The Council has made substantial progress in addressing these weaknesses in 2023/24.

Criteria	2022/23 Risk assessment	2022/23 Auditor judgement on arrangements	2021/22 Auditor judgement on arrangements	Direction of travel
Financial sustainability	No significant weaknesses identified.	A No significant weaknesses in arrangements identified, but one improvement recommendation made.	A No significant weaknesses in arrangements identified, but two improvement recommendations made.	↑
Governance	Significant weaknesses identified in 2021-22 in arrangements for procurement and onboarding of contractors	R Significant weaknesses in arrangements and two key recommendations made.	R Significant weaknesses in arrangements and two key recommendations made.	↔
Improving economy, efficiency and effectiveness	Significant weaknesses identified in 2021-22 in arrangements for procurement and onboarding of contractors	R Significant weaknesses in arrangements and one key recommendation and two improvement recommendations made.	R Significant weaknesses in arrangements and one key recommendation made.	↔

- G** No significant weaknesses in arrangements identified or improvement recommendation made.
- A** No significant weaknesses in arrangements identified, but improvement recommendations made.
- R** Significant weaknesses in arrangements identified and key recommendations made.

Executive summary (cont'd)



Financial sustainability

The Council has a structured and effective approach to developing and reviewing its financial plans. We are satisfied that the assumptions underpinning the Council's financial planning and strategy for the 2022/23 revenue budget and the medium-term were appropriate. Capital schemes were linked to corporate priorities. There was a planned capital programme of £29 million but an outturn of £13 million in 2022/23 which indicates scope for improved planning of capital schemes.

The Council's approach to developing its financial plans included a good level of internal engagement to establish the financial context and share budget assumptions. This work was led by the senior management team and engaged a wide range of managers and budget holders to ensure that budget issues were captured and opportunities to save were aired. The Council continued to set its General Fund reserve balance at £4 million to mitigate the risks of generating income from investment and temporary delays in savings schemes. The Council's analysis of reserves indicated an anticipated total of £17 million of General and Earmarked reserves at the end of 2022/23 and the Council did not undertake any short or long-term borrowing. Notwithstanding the Council's good financial position, work continued on its Transformation Strategy and shared services partnership in recognition of the continuing need to improve efficiency and secure savings.

Our work has not identified evidence of significant weaknesses within the arrangements in place. However, we have identified that the Council could improve arrangements for planning of capital spending and as such, have raised an improvement recommendation. See page 20 for more detail.



Governance

In our 2021/22 Auditor's Annual Report we reported on additional risk-based work undertaken following an Internal Audit Review into the shared services provided by the Commercial Services Directorate. Our findings were that the Council was exposed to risks through its failure to have proper controls and processes in place in respect of Contractors working in the Council and that this represented a significant weakness in the Council's arrangements. We made two key recommendations in relation to Governance systems to address this significant weakness. The first related to the extent of system access granted to contractors and the documentation and review of access. The second related to the organisational architecture required to ensure effective safeguards, checks and balances.

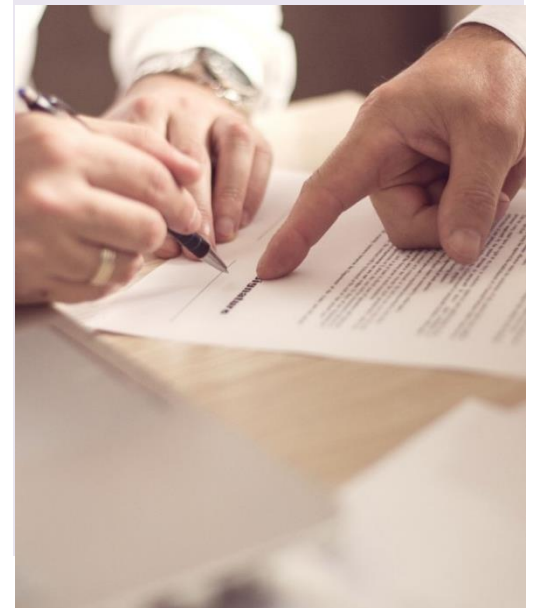
We have considered and included references to the Council's actions to address this significant weakness (which have mainly been carried out in 2023/24) in this report. Because this report is retrospective and looks at arrangements in place in 2022/23, and because the significant weaknesses were present in 2022/23 we have repeated the key recommendations we made in our 2021/22 Report. It should be noted that the significant weaknesses reported in 2021/22 were only reported to the Council in August 2023 due to the time it took to fully explore those areas. The Council has made significant progress in addressing these significant weaknesses and implementing the recommendations in 2023/24.

Our work has not identified any evidence which leads us to conclude that there are additional significant weaknesses, other than those identified above, present in the Council's Governance which require further recommendations to be raised.



Financial Statements opinion

We are in the progress of completing our audit of your financial statements and anticipate issuing an unqualified audit opinion.



Executive summary (cont'd)



Improving economy, efficiency and effectiveness

In our 2021/22 Auditor's Annual Report we reported on additional risk-based work undertaken following an Internal Audit Review into the shared services provided by the Commercial Services Directorate. Our findings were that the Council was exposed to risks through its failure to have a properly resourced procurement function and that this represented a significant weakness in the Council's arrangements. We made a key recommendation in relation to the economy, efficiency and effectiveness of the Council to address this significant weakness which related to the resourcing and responsibilities of the procurement function.

We have considered and included references to the Council's actions to address this significant weakness (which have mainly been carried out in 2023/24) in this report. Because this report is retrospective and looks at arrangements in place in 2022/23, and because the significant weaknesses were present in 2022/23 we have repeated the key recommendations we made in our 2021/22 Report. It should be noted that the significant weaknesses reported in 2021/22 were only reported to the Council in August 2023 due to the time it took to fully explore those areas. The Council has made significant progress in addressing these significant weaknesses and implementing the recommendations in 2023/24.

We have made two improvement recommendations about the more effective use of performance bench-marking information and the development of a partnership strategy.

Our work has not identified any evidence which leads us to conclude that there are additional significant weaknesses, other than those identified above, present in the Council's governance which require further recommendations to be raised.



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Use of auditor's powers

We bring the following matters to your attention:

	2022/23
<p>Statutory recommendations</p> <p>Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly.</p>	<p>We did not make any written recommendations under Schedule 7 of the Local Audit and Accountability Act 2014.</p>
<p>Public Interest Report</p> <p>Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.</p>	<p>We did not issue a public interest report.</p>
<p>Application to the Court</p> <p>Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.</p>	<p>We did not make an application to the Court.</p>
<p>Advisory notice</p> <p>Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority:</p> <ul style="list-style-type: none"> • is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure, • is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or • is about to enter an item of account, the entry of which is unlawful. 	<p>We did not issue any advisory notices.</p>
<p>Judicial review</p> <p>Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.</p>	<p>We did not make an application for judicial review.</p>

Key recommendations



Key Recommendation 1

The Council should review the safeguards put in place in relation to onboarding a contractor as part of the shared services arrangements. Although the contractor was not onboarded by South Ribble, the Council should be cognisant of the potential risks of any process essentially carried out by a 'third party' and the requirement for related robust controls.

Going forward the Council needs to give due consideration to the extent of IT and documentation access required for any contractor to effectively perform their role. The Directorate responsible for the contractor, and IT, must communicate to ensure that appropriate system access is provided. Any contractor added to the Council system or who has access to Council information, must be treated on a case-by-case basis with consideration of the risks involved. This consideration must also be appropriately documented and an audit trail maintained to ensure appropriate risk management. System access must also be regularly reviewed throughout periods of employment.

Identified significant weakness in arrangements

If the appropriate access is not given when on-boarding contractors, then the Council may be exposed to data breaches.

Summary findings

The on-boarding of a contractor was not appropriately risk-managed leading to breaches of the IT security framework.

Criteria impacted by the significant weakness

Governance

Auditor judgement

This report looks at arrangements in place in 2022/23 and the significant weaknesses were present in 2022/23, we have therefore repeated the key recommendations we made in our 2021/22 Report. It should be noted that the significant weaknesses reported in 2021/22 were only reported to the Council in August 2023 due to the time it took to fully explore those areas. The Council has made significant progress in addressing these significant weaknesses and implementing the recommendations in 2023/24.

Management comments

See next page

The range of recommendations that external auditors can make is explained in Appendix B.

Key recommendations

Management comments

The council has undertaken significant work since the issues were first identified. This has included:

- changes to the process to create access to the council network to explicitly identify the type of access being granted (for example, contractor, permanent employee, fixed term employee)
- the agreement of a Director, documenting necessity and extent of access required.
- introduction of a regular check of network access for contractors.

The roll out of the new file saving system using Microsoft Teams has continued, and is now being used by all teams across the organisation. This brings a number of advantages:

- limiting the requirement for external users to have network access
- providing greater ability to provide limited access to files
- allow easy reporting of external access to council systems and files
- greater integration with staff attendance management system iTrent for automated reporting on starters and leavers

The range of recommendations that external auditors can make is explained in Appendix B.

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Key recommendations (cont'd)



Key Recommendation 2

In the case of the Commercial Services directorate, officers working across both Councils were able to operate for an extended period of time outside the control framework without being picked up by the Council's safeguards, checks or balances. Council governance processes must ensure appropriate protection for officers as well as the organisation. The Council must consider what organizational architecture needs to be in place to ensure that the appropriate safeguards, checks and balances are in place to provide the assurance that officers acting improperly will be detected by Council systems. This will ensure appropriate protection for both officers and the organisation.

Identified significant weakness in arrangements

The circumstances of an individual contractor's employment or engagement with the Council can change during their time with the organisation. Without regular review of system access in order to re-consider the risks, this exposure to risk increases.

Summary findings

A contractor was able to operate for an extended period of time outside the control framework without this being identified.

Criteria impacted by the significant weakness

Governance

Auditor judgement

This report looks at arrangements in place in 2022/23 and the significant weaknesses were present in 2022/23, we have therefore repeated the key recommendations we made in our 2021/22 Report. It should be noted that the significant weaknesses reported in 2021/22 were only reported to the Council in August 2023 due to the time it took to fully explore those areas. The Council has made significant progress in addressing these significant weaknesses and implementing the recommendations in 2023/24.

Management comments

The strengthened Corporate Governance Group continues to monitor the Council's internal governance arrangements, with agenda items including Annual Governance Statement actions, ICT Programme updates and rotational updates from Heads of Service. This work will continue, with the Annual Governance Statement. A comprehensive check of expenditure incurred with all suppliers that totalled more the £50k in the 3 years to June 2023 has been completed in 2023/24, and did not identify any new issues.

Key recommendations (cont'd)



Key Recommendation 3

The Council must consider the role of the procurement function in respect of the whole organisation. The Council should outline the responsibilities of procurement versus service line leads in contract management and procurement and document this delineation in its Constitution.

The Council must seek to renew and enhance its procurement strategy.

The Council must prioritise the appropriate resourcing of its procurement function, particularly with respect to the shared services arrangement. The lack of capacity of the current procurement function is putting the Council at significant risk of failure to achieve value for money in its procurement and contract management arrangements.

The Council must seek to appropriately train the employees in the procurement function. There was evidence of a limited advisory and supervisory function of the procurement team throughout this review. The procurement function is also lacking in appropriately qualified personnel. The procurement team must be aware of their responsibilities as an advisory and monitoring function and must perform this role effectively.

Identified significant weakness in arrangements

Not having a comprehensive procurement strategy in place and a lack of resource in the procurement department leave the Council exposed to risk in terms of its key contracts and poses both a reputational and financial risk.

Summary findings

Significant weaknesses in the procurement and management of a contractor exposed the council to risk and highlighted weaknesses in the procurement function.

Criteria impacted by the significant weakness

Improving economy, efficiency and effectiveness

Auditor judgement

This report looks at arrangements in place in 2022/23 and the significant weaknesses were present in 2022/23, we have therefore repeated the key recommendations we made in our 2021/22 Report. It should be noted that the significant weaknesses reported in 2021/22 were only reported to the Council in August 2023 due to the time it took to fully explore those areas. The Council has made significant progress in addressing these significant weaknesses and implementing the recommendations in 2023/24.

Management comments

The Council has put in place arrangements to strengthen the procurement function. This has included using external support from Blackburn with Darwen Council, employing a qualified senior procurement officer and, more recently, agreeing further strengthening of the procurement function following a review. That strengthened team will be implemented during 2024. The procurement strategy will also be refreshed during 2024, taking into consideration changes in legislation.

Securing economy, efficiency and effectiveness in the Council's use of resources

All councils are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The Council's responsibilities are set out in Appendix A.

Councils report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office's Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:



Financial sustainability

Arrangements for ensuring the Council can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).



Governance

Arrangements for ensuring that the Council makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the Council makes decisions based on appropriate information.



Improving economy, efficiency and effectiveness

Arrangements for improving the way the Council delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

In addition to our financial statements audit work, we perform a range of procedures to inform our value for money commentary:

- Review of Council, Cabinet and committee reports
- Regular meetings with senior officers
- Interviews with other members and management
- Attendance at Audit Committee
- Considering the work of internal audit
- Reviewing reports from third parties including Ofsted
- Reviewing the Council's Annual Governance Statement and other publications



Our commentary on the Council's arrangements in each of these three areas, is set out on pages 14 to 28.

The current LG landscape



National context

Local government in England continues to face significant challenges as a sector. These include a high level of uncertainty over future levels of government funding, alongside delays to the Government's plans for reform of the local government finance system, impacting on medium-term financial planning. This is also a time of generationally significant levels of inflation – the UK inflation rate was 7.8% in April 2022, rising to a 41-year high of 11.1% in October 2022, then reducing to 10.1% in March 2023. Inflation levels put pressure on councils' revenue and capital expenditure, as well as the associated cost of living crisis impacting on local communities and businesses, leading to an increase in demand for council services such as children with special education needs with associated transport costs, debt advice, housing needs, and mental health, as well as impacting on some areas of council income such as car parking and the collection rates of council tax, business rates and rents. This follows a significant period of funding reductions by Government (2012 to 2017) and the impacts of Brexit and the COVID-19 pandemic which, for example, have contributed to workforce shortages in a number of council service areas, as well creating supply chain fragility risks.

The local government finance settlement for 2023/24 was better than many in the sector anticipated demonstrating an understanding by Government of the financial challenges being faced by the sector. However, the Local Government Association, in July 2023, estimated that the costs to councils of delivering their services will exceed their core funding by £2bn in 2023/24 and by £900m in 2024/25. This includes underlying cost pressures that pre-date and have been increased by the pandemic, such as demographic pressures increasing the demand for services such as social care and homelessness.

Over the past decade many councils have sought to increase commercial activity as a way to generate new sources of income which has increased the nature of financial risk, as well as the need to ensure there is appropriate skills and capacity in place to manage such activities.

Local government is coming under an increased spotlight in terms of how the sector responds to these external challenges, including the Government establishing the Office for Local Government (Oflog) and there has been an increase in the number of councils who have laid a Section 114 Notice, or are commenting on the likelihood of such an action, as well as continued Government intervention at a number of councils.

There has also been an increase in the use of auditors using their statutory powers, such as public interest reporting and statutory recommendations. The use of such auditor powers typically derive from Value for Money audit work, where weaknesses in arrangements have been identified. These include:

- a failure to understand and manage the risks associated with commercial investments and council owned companies
- a failure to address and resolve relationship difficulties between senior officers and members
- significant challenges associated with financial capability and capacity
- a lack of compliance with procurement and contract management processes and procedures
- ineffective leadership and decision-making.

Value for Money audit has an important role in providing assurance and supporting improvement in the sector.

The current LG landscape (continued)



Local context

South Ribble Borough Council (the Council) was formed on 1 April 1974 as part of a wider reorganisation of local government in England undertaken at that time. It is a district council in south Lancashire with its largest town being Leyland. It is bordered by the Lancashire districts of Fylde, Preston and Ribble Valley to the north, West Lancashire to the west and Chorley to the south. Blackburn with Darwen Borough lies to the east of South Ribble. The Borough covers 11,461 hectares with almost a third of the population living in rural areas.

South Ribble's population was estimated at just under 111,000 in the Office for National Statistics 2021 Census. The population grew by 1.8% over the previous decade, which was lower than the rate for England (6.6%) and neighbouring areas. At 1.8% South Ribble's population growth over the decade was one of the lowest in the North-West region. 23.6% of South Ribble's population change was in people aged over 65 and there were also significant rises in the 50-59 and the 30-34 age groups. There was a 1.5% decrease in the number of children aged under 15.

The percentage of those economically active in the borough is higher than the UK average and the area's good communication links and proximity to Greater Manchester means that the borough has significant employment in the construction and manufacturing sectors. At 2.4%, unemployment is lower than the regional and national levels.

The Council has 50 elected members representing 23 wards. Elections are held every four years. The Labour Party is currently in control of the Council and the current political balance is: Labour 29, Conservative 16 and Liberal Democrat 5.

The Council's 2023/24 - 2024/25 Corporate Strategy sets out the Council's vision of "A listening, engaging, and responsive Council that makes the best use of its resources to enable every person and community to thrive in a vibrant, green and fair borough." The Strategy sets out four key priorities:

- An Exemplary Council
- Green and Clean Neighbourhoods
- Healthy and Happy Communities
- Opportunities for Everyone.

The Council has established a partnership with Chorley Borough Council through which it has a shared management team and a number of shared service arrangements.

Financial sustainability



We considered how the Council:

- identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds them into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning which may include working with other local public bodies as part of a wider system
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

Short and medium term financial planning

The Council has a structured and effective approach to developing and reviewing its financial plans.

When the Council set its 2022/23 budget in February 2022, it identified the financial challenges it faced over the next three years in the South Ribble Medium-Term Financial Strategy (MTFS) 2022/23 to 2024/25. The MTFS highlighted the uncertainty around the national policy context, including the unresolved Fair Funding Review. Similarly, the Government's review of the Business Rates Scheme identified the need for more frequent revaluations (every three years) and a requirement to review the level of business rate retention, as a result of which the Council concluded that the quantum of business rates available to it in future was uncertain.

The MTFS also identified that the *Levelling-Up The United Kingdom* White Paper included a potential shift in the way local government may operate in the future but concluded that this would not have an imminent impact on the finances of the Council because of the timescales for consultation and legislation.

Assumptions

The MTFS 2022/23 to 2024/25 set out assumptions about reductions in central government funding, including a reduction in New Homes Bonus to £0.802 million in 2022/23 with this income stream expected to cease in 2023/24. Key planning assumptions also included no increase in the council taxbase. The Council assumed no increase in growth of retained business rates because of revaluations, appeals and possible changes to the baseline. However, it anticipated that it would continue to benefit from additional income from the Lancashire Business Rates Pool which was expected to be £1.396 million in 2022/23, and in each of the following two years.

Assumptions around income and expenditure growth over the forecast period to 2024/25 were based on a prudent but realistic view. Pay awards of 1.75% in 2021/22 and 2% in 2022/23 and pensions contributions of 17.1% were incorporated over the period.

General assumptions included a Council tax freeze in 2022/23 and 2023/24 followed by a Council tax increase of 1.99% in 2024/25 but it was recognised that the continuing uncertainty meant that these assumptions would be re-visited in the annual budget setting process.

Overall, the Council's funding from all sources was forecast to be £14.9 million by 2024/25. The MTFS recognised that the increase in the Business Rates base would provide an additional £300,000 income to the Council in 2022/23 and as a consequence a council tax freeze was agreed in the 2022/23 budget. Nevertheless, the Council's assessment of the impact of its cost pressures and meeting its priorities resulted in a budget deficit of £55,000 in 2022/23, £739,000 in 2023/24 and £1.014 million in 2024/25. The MTFS identified additional income from the administration charge for Disabled Facilities Grant of £55,000 which produced a balanced budget in 2022/23. Additional income from capital investments was projected to yield an additional annual income of £65,000 from 2023/24 and the projected council tax increase in 2024/25 would yield an additional annual income of £162,000. These changes resulted in a balanced budget for 2022/23 and budget gaps of £619,000 and £732,000 for the following years.

Further savings of £732,000 to close the budget gaps in 2022/23 and 2023/24 were to be achieved through the Council's Transformation Strategy which included plans to invest in employment and housing initiatives, further sharing of services, energy efficiency savings to address the budget gap.

The MTFS 2022/23 to 2024/25 included a narrative linking the Council's corporate plan priorities to future investment plans and notwithstanding the Council's current good financial position, it recognised the continuing need for productivity savings and the savings and resilience which could be achieved through developing the shared service arrangements. We are satisfied that the assumptions underpinning the Council's financial planning and strategy for the 2022/23 revenue budget and the medium-term were appropriate.

Financial sustainability (cont'd)

Short and medium term financial planning (cont'd)

Capital Strategy and Treasury Management

When the Council approved the Capital Strategy on 23 February 2022, capital expenditure of £29.192 million was approved for 2022/23. This was subsequently amended to £24.255 million in February 2023 to reflect slippage and re-profiling. The 2021/2022 capital outturn was reported as £13.555 million to Cabinet on 21 June 2023.

Some variation within the capital programme is inevitable and often attributable to unforeseen delays or changes to plans. However, the difference between a planned programme of £29.192 million and an outturn of £13.555 million in 2022/23 may be symptomatic of problems which might include poor planning or delivery. In the light of this variance we have made a recommendation (improvement recommendation 1) that the Council should review the inclusion of projects within the first two years of its capital programme to ensure that schemes can be planned and delivered within an appropriate timescale.

Capital schemes were linked to corporate priorities and the Council had a clear description of governance processes which apply to capital schemes. Proposed new schemes were required to follow standard project management methodology with business cases which were scrutinized by the finance team. External expertise was brought in where required. New capital schemes were considered by the Senior Management Team before going through Cabinet and Council approval processes.

The Capital Strategy 2022/23 used a modified affordability indicator when comparing its capital financing costs to the net revenue stream. Net income generated through income generating assets was included. The closing capital financing requirement in the capital strategy for 2022/23 was £16.058 million and the opening capital finance requirement in the capital strategy for 2023/24 approved in March 2023 was £9.805 million with plans to increase prudential borrowing by £18.057 million in 2023/24.

The Capital Strategy 2023/24 projected an increase in capital expenditure to £40.030 million (from a budgeted £24.255 million in 2022/23). The increase reflected changes to the programme including a £25 million Town Fund grant to deliver new housing and employment opportunities. The programme included a £3 million refurbishment of Worden Hall. Investment to generate efficiency savings included £970,000 in ICT infrastructure.

The Council's Treasury Management Strategy 2022/23 to 2024/25 set out prudential indicators for capital expenditure and financing, the forecast level of external borrowing and investments. It also amended the policy for Minimum Revenue Provision (MRP) following an internal review. This change in MRP policy involved adopting an annuity basis for all post 2008 debt and to charge MRP in equal annual instalments over the asset life for pre-2008 debt. The revised approach is prudent and consistent with the options provided in government guidance.

On 1 March 2023 the Council approved the revised Treasury Management Strategy which was set out in an Appendix to the MTFS 2023/24 to 2025/26. The MRP policy approved as part of the Treasury Management Strategy was consistent with the changed policy approved in 2022. The Council's maintained its position of zero external debt and used its capacity for internal borrowing where necessary. The Council's Operational Boundary was set at £9.74 million and was projected to rise to over £27 million in 2023/24. The Council's Strategy was to maintain an under-borrowed position using reserves, balances and cashflow to cover borrowing need.

The Treasury Management Strategy also sets out the Council's Investment Policy including its approach to assessing creditworthiness, investment counterparties, country limits and expectations in terms of investment returns.

Monitoring progress

The MTFS was reviewed as part of the annual budget setting process. On 1 March 2023, a revised MTFS 2023/24 to 2025/26 set out new assumptions on key income and expenditure issues, including recognising the impact of higher inflation rates of 5% on anticipated pay awards in 2023/24 and 2024/25, full year CPI estimates of 7.4% in 2023 and 100% increases in utility costs in 2023/24. The budget gap of £967,000 in 2024/25 was to be closed by increasing investment income, realising procurement savings (including joint procurement with Chorley Borough Council) and further efficiency savings through investment in infrastructure, ICT and exploring alternative delivery models for its services.

The assumptions and variables within the Council's financial model were updated during the year to enhance the financial planning and assess the impact of known changes and potential changes. Regular monitoring reports were made at departmental and Cabinet level to ensure there was a strong control environment.

Financial sustainability (cont'd)

Monitoring progress (cont'd)

A report under Section 25 of the Local Government Act 2003 was included as Appendix B1 to the Revenue Budget and MTFs Reports in 2023/24. The report forecast a balanced budget for 2023/24, a General Fund Reserve Balance of £4 million and earmarked reserves of £13.194 million at the start of 2023/24. The Section 151 Officer confirmed their belief that the level of reserves was robust.

The 2022/23 draft outturn was published to Cabinet in June 2023 and reported a provisional underspend of £290,000 for 2022/23. The provisional outturn for total net expenditure was therefore £15.383 million compared to the original £15.546 million budget. The outturn report included details of key variances by directorate.

Planning and delivering savings

The MTFs 2022/23 to 2023/24 set out a budget gap of £55,000 in 2022/23 increasing significantly to £1.014 million in 2024/25. The Council's funding had remained relatively stable rising from £13.909 million in 2016/17 to a projected £14.568 million by 2024/25. The relatively small budget deficit in 2022/23 was addressed by a change in the administrative charge for Disabled Facilities Grant. Nevertheless, the Council was mindful of the continuing need to make savings and improve efficiency through cost controls, efficiency savings and increased income generation which it delivered through its Transformation Strategy.

The key challenge for the Council was therefore to maintain a focus on efficiency in anticipation of a more challenging financial position in future years whilst the budget requirement and funding gap for 2022/23 was manageable (see Fig 1). The Transformation Strategy includes income generation activities which recognise that the relatively strong position of the Council in terms of council tax and business rate income may not be sufficient in the long term. The Council has therefore identified three investment sites – McKenzie Arms, West Paddock Extra Care Scheme, and Worden Hall which have potential to bring both community and additional income benefits. A second strand of the Transformation Strategy focussed on savings which included a potential of £470 million of service savings over the three years of the MTFs.

Fig. 1 Planned and actual performance 2021/22 and 2022/23

£ 000	2022/23	2021/22
Planned revenue expenditure	£15,639	£ 14,230
Actual revenue expenditure	£15,383	£ 13,872
Planned capital spend	£29,194	£15,814
Actual capital spend	£13,555	£ 7,764
Planned savings target (budget gap)	£55,000	£0
Actual savings delivered (outturn)	£290,000	£ 570,000
Year-end cash position	£8,098	£ 18,155

Financial sustainability (continued)

Planning and delivering savings (cont'd)

A third strand of activity was around alternative delivery models which included expansion of the shared service partnership with Chorley Borough Council and the reduction of leisure costs through South Ribble Leisure Ltd which is a wholly-owned company of the Council. The Transformation Strategy also includes the Council's programme aimed at de-carbonising assets which includes a £5 million Government grant to help reduce the use of fossil fuels to power the Council's leisure centres. The Council projected that the de-carbonisation process would result in financial savings of £600,000 over eight years.

Progress in meeting transformation goals was reported to Cabinet and Scrutiny, Budget and Performance Panel. For example, in November 2022 a report covered performance up to the end of Quarter 2 in 2022/23 and included updates on shared services, the workplace strategy and data governance.

In addition to reporting to members, a Transformation Focus Group met regularly with Directors and Service Leads to scrutinise savings and income generation proposals. This included the feasibility of the proposals, timelines and any additional budget pressures that might result. The Transformation Focus Group's purpose is to monitor the progress in project delivery and ensure that the overall objectives of the Transformation Strategy are met and that anticipated savings are achieved. In our view, this has proved to be a productive approach in achieving savings and a balanced budget.

Financial planning and strategic priorities

The MTFs was part of a framework which aligned the use of resources and activities to deliver the Council's priorities. Those priorities were set out in the second element of the framework, the Corporate Strategy 2021/22 to 2023/24, This was monitored through the corporate performance framework. The Corporate Strategy set out four priorities:

- Thriving Communities;
- Good Homes, Green Spaces, Healthy Places;
- A fair local economy that works for everyone; and
- An exemplary council (which aims to improve performance, work effectively with partners and be open and transparent).

Investment plans for each of these priorities were included within the MTFs and in addition to the Council's major capital schemes, they included new investment in business support (£200,000), investments to tackle fly-tipping and environmental issues (£200,000) and a community support fund (£250,000).

The Transformation Strategy was the third element of the framework and this coordinated the Council's change programmes including digitalisation and the workforce plan. There is a clear read-across between the priorities set out in the corporate strategy, the MTFs and the Transformation Strategy. Key performance indicators were identified in the corporate strategy and were reported through the Council's performance monitoring.

The Council has identified significant resources to support its ambition to de-carbonise its assets including government grant of £5 million. The capital programme for 2022/23 included a planned investment of £5.269 million in de-carbonisation. The Council therefore made a substantial commitment to moving towards net zero. However, the capital outturn report for 2022/23 indicated a slippage and re-profiling of £2.869 million of planned spend on Leisure Centre refurbishment and de-carbonisation.

Slippage and re-profiling of the capital programme totalled £11.131 million at the end of 2022/23 and, as previously noted, we have made an improvement recommendation earlier in this report (improvement recommendation 1) about the planning and delivery of capital schemes which will be important if the Council is going to meet its de-carbonisation aims.

The Council's approach to developing its financial plans included a good level of internal engagement to establish the financial context and share budget assumptions. This work was led by the senior management team and engaged a wide range of managers and budget holders to ensure that budget issues were captured and opportunities to save were aired. In preparing the 2023/24 budget, the senior leadership team held a workshop session to understand budget performance and address the future budget gap. As part of the process updated assumptions were shared informally with members to support discussions on addressing gaps in the budget.

Financial sustainability (cont'd)

Managing risks to financial resilience

Reserves

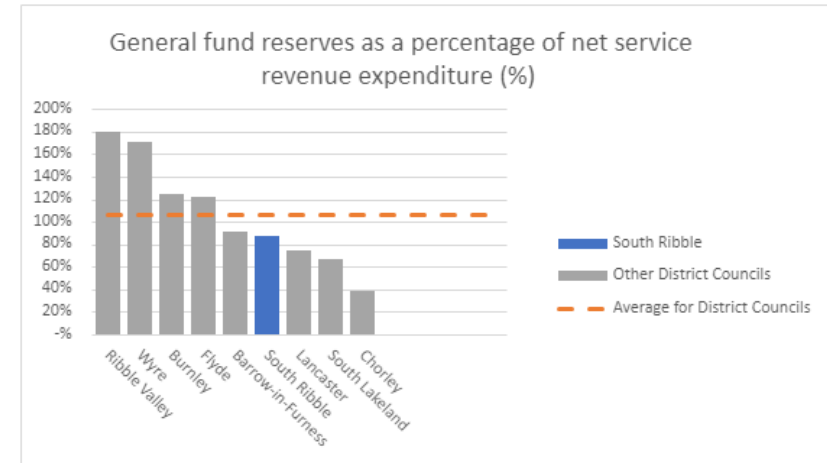
When revising the MTFS in February 2023, the Council identified risks to the MTFS, categorising them as High, Medium and Low. High risks consisted of risks to the Council's income through possible changes to the Business Rates and Business Rates retention scheme, and the delay to the Fair Funding Review. Pay inflation and delivery of savings were among the medium risks faced by the Council. The risk of loss of income streams, including investment income was also recognised.

The Council continued to set its General Fund reserve balance at £4 million to mitigate the risks of generating income from investment and temporary delays in savings schemes. The assessment of risks was clearly set out in an appendix to the MTFS which also included an analysis of reserves indicating an anticipated total of £17.343 million of General and Earmarked reserves at the end of 2022/23. Within its reserves, the Council made provision of £2.164 million for one-off reductions in business rates and a provision of £0.75 million to offset the reduction of income at the end of the City Deal agreement.

The MTFS 2023/24 to 2025/26 stated that the Council did not rely on the use of the general reserve but that it was available to help manage the potential risks in the budget. These potential risks included volatility in the funding system relating to business rates retention, the profile of savings and income generation proposals. General Fund Reserves as a percentage of net service revenue expenditure were slightly below the average for District Councils. (See Fig. 2)



Fig.2 General fund reserves as a % of net revenue expenditure 2022/23



Reporting

Balance sheet and capital programme monitoring was reported in June and November to Cabinet and the Scrutiny Budget and Performance Panel. Changes in interest rates impacted on investment income and debt interest payable and the outturn on 31 March 2023 showed that interest income exceeded interest payable and MRP resulting in a positive net borrowing and interest position of £476,000, which was the result of additional interest and investment income of £740,000 over the budgeted total for these items.

Investments made by the Council in 2022/23 totalled £27.5 million. There was no short or long-term borrowing. Cash balances held by the Council were £8.09 million.

Reporting also included the total outstanding debt at the end of the year which indicated a small improvement in the Council Tax collection rate and in business rates collected. The balance outstanding on Commercial Sundry Debts and Housing Benefits overpayments at the end of the year was lower than the previous year.

Financial governance

Annual budget setting

The Council took a consistent approach to budget setting in 2022/23 and 2023/24 by building on the previous year's budget and factoring-in changes including: new grants, Council Tax base data and Business Rates. The budget process also took into account savings delivery, service pressures and changes to service fees and charges.

There was council-wide involvement of officers and members during the preparation of the budget which considered capital and revenue plans, risks, cost pressures and savings. The 2023/24 budget setting preparations included consideration of factors such as the cost-of-living crisis, rising utility costs, increasing interest rates and recovery from the Covid 19 pandemic. The Council carried out budget consultation exercises to gather feedback prior to setting the budget. The consultation prior to setting the 2022/23 budget took place between 1 February and 10 February 2022 and resulted in 220 responses to an online survey, with 109 open responses and 39 comments through social media. The 2023/24 budget was carried out between the 13 February and 21 February 2023 and received 104 responses through the Council's website and social media. Responses indicated the level of support for Council priorities, the level of support for a council tax increase (in 2022/23) and provided the scope for open-ended comments.

The Cabinet considered and approved the 2023/24 budget on 22 February 2023 prior to the Council approving the budget on 1 March 2023. The MTFs set out forecasts over the three-year period as well as the context for the annual budget. The framework for budget setting was set out within the Council's Constitution and in its Budget Strategy. The potential impact of changes of various estimates and assumptions was discussed as part of the briefing process in the development of the budget.

Budgetary Control

The Finance Department engaged regularly with budget holders and budget performance was monitored at senior management team meetings, at departmental level and in briefings with Executive Members. Budget accountability for Heads of Service (who were the majority of budget holders) was built into quarterly reporting at Directorate Management team and then onto Senior Management Team. There was challenge within these processes.

Quarterly budget monitoring reports were taken to Cabinet and included outturn against budget, variance analysis, and explanations for underspends and overspends against budget at a directorate level. Any proposed revisions to the budget were also communicated through this report. There was clear reporting on the forecast outturn and the impact on useable reserves. An update was also provided against the Capital Programme, with revisions also communicated. The 2022/23 draft outturn was published to Cabinet in June 2023 and reported a provisional underspend of £290,000 for 2022/23.

The MTFs report on 1 March 2023 for the period 2023/24 to 2025/26 included a Treasury Management Statement setting out policies for borrowing and debt management, investment strategy and Minimum Revenue Provision. Financial monitoring reports and minutes demonstrated that in-year forecast variances were being picked up promptly, and budget holders were being held to account for delivering to budget. On 10 November 2022 a report to Cabinet set out the revenue and reserves forecasts at six months (September 2022) indicating a provisional underspend of £213,000 and setting out the main variances from the original budget. The main additional cost pressures arose from the anticipated pay award and rising utility costs.

Financial Sustainability and Financial Governance conclusions

We are satisfied that the Council had adequate financial planning arrangements which were scrutinised at Cabinet, Council and Governance Committee and that risks to the Council's financial sustainability were identified and monitored, reflecting the Council's awareness of the challenges it faced.

The Council had an adequate level of reserves and did not plan to use reserves in order to balance its budget. Its reserves position was strong enough to be able to deal with any unforeseen problems arising during the year if it became necessary.

Whilst the Council's funding gap in the short-term is relatively manageable, the Council's approach recognized future budget shortfalls and in-year pressures required a combination of savings and additional income to ensure continuing financial sustainability. The Council's overall financial position in terms of its reserves, investments, low use of borrowing and continuing focus on efficiency ensured that it remained financially sustainable in 2022/23.

We did not identify any significant weaknesses in arrangements to ensure financial sustainability and maintain effective financial governance at the Council. We have made one recommendation about how the Council plans its capital spending (improvement recommendation 1).

Improvement recommendation 1



Improvement Recommendation 1

The Council should review the approach it takes to inclusion of projects within the first two years of its capital programme to ensure that schemes can be planned and delivered within an appropriate timescale.

Improvement opportunity identified

The significant gap between the planned capital programme and outturn indicates the potential for improved planning and scheduling of capital spending and improved outcomes in terms of the Council's priorities and outcomes.

Summary findings

The Council planned to spend £29.192 million on capital schemes in 2022/23 but reported an outturn spend of £13.555 million which is indicative of problems which might include poor planning or delivery with consequences for the management of resources and the delivery of the Council's priorities.

Criteria impacted

Financial sustainability

Auditor judgement

Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.

Management comments

Since the appointment of the Head of Property and Development in April 2023, processes have been reviewed and regular meetings are held between the Estates and Finance teams to review the profile of expenditure on each capital scheme, utilising both the knowledge of the Officers involved and Quantity Surveyor reports. Any required movements in spend profile are reflected in the Quarterly Capital and Balance Sheet Monitoring reports presented to the Cabinet. In addition, a consultant partner has been procured to provide Development Management services and who will provide support in informing the capital programme and timescales for delivery, based on available resource and funding timescales. It must be noted however that whilst action has been taken to improve the accuracy of forecast spend through the capital programme once the scheme is underway, there is sometimes slippage between the time the initial scheme and profiled programme budget is approved, through to the actual start on site; there can be several reasons for this, for example further design and detailed specification work required, possible consultation, and then the procurement process itself.

Governance



We considered how the Council:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effective processes and systems are in place to ensure budgetary control; communicate relevant, accurate and timely management information (including non-financial information); supports its statutory financial reporting; and ensures corrective action is taken where needed, including in relation to significant partnerships
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency
- monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff and member behaviour (such as gifts and hospitality or declaration of interests) and where it procures and commissions services.

Risk management and internal controls

Risk Management

The Council's Risk Management System included a Strategic Risk Register which identified the key risks facing the organisation. Service level and project risks were also included in a live risk-management system (GRACE) which was updated to reflect new or emerging risks. The Strategic Risk Register was owned by the Senior Management Team and risks were scored on a risk matrix based on an assessment of the impact of each risk and its likelihood. Risks were RAG-rated and allocated to categories such as risks relating to financial controls, regulatory issues, reputational risk, and achievement of corporate objectives. Risks were assessed to indicate the direction of travel. Risk owners were identified for each strategic risk and control measures were identified and described, together with action plans and named owners for the action plans. The Council had a Risk Management Policy, Process Guide and Toolkit which underpinned its approach to risk management across all Directorates and this approach was supported by training on risk management.

Strategic risks were reported to the Governance Committee. The report the Committee considered on 26 July 2022 identified 16 strategic risks at that time. The risks were described and shown with the control and mitigation measures which were in place or planned. The highest scoring risk related to lack of staff capacity and skills based on recruitment issues faced by the Council. The risk was being mitigated through the Organisational Development Strategy, mapping of key skill gaps, recruitment drives and a review of employee benefits.

The reporting highlighted changes to the risk scores, some of which reflected changing risks as the Council emerged from the impact of the pandemic. The reporting also included a specific narrative on action being taken in relation to each risk. For example, in relation to the risk of failing to sustain the performance of corporate strategy projects and organisational performance, the mitigating factors included the further development of the performance management system and investment in technology.

Of the 16 strategic risks reported to Governance Committee in July 2022, two risks had increased scores since the previous report indicating a heightened level of risk. Three risks had decreased in significance reflecting the reducing impact of the COVID-19 pandemic and the in-sourcing of leisure and waste services.

Internal Audit

The Council's Internal Audit Service (shared with Chorley Borough Council) carried out and reported on an internal assessment against the requirements of the Public Sector Internal Audit Standards (PSAIS) on an annual basis. A report was made to the Governance Committee on 24 May 2022 setting out the results of the assessments for 2022. External assessment has been carried out every five years and the last external assessment was in April 2018 and a further assessment is due in 2023/24. The service self-assessed that it was compliant with 128 aspects of PSAIS and partly compliant with the remaining one aspect.

Governance (cont'd)



Internal Audit (cont'd)

The Internal Audit Annual Plan and Opinion for 2022/23 was reported to and considered by the Governance Committee on 23 May 2023. The overall annual internal audit opinion was that the adequacy and effectiveness of the Council's governance, risk management and control processes was adequate for 2022/23. Sixteen audit reviews were planned and thirteen were completed in the year. However, the exception to this opinion was the three limited assurance rated reviews and the unplanned review which represented a significant control weaknesses. Management actions arising from Internal Audit reviews are monitored and it was reported that 64% of the Council's management actions due by 31 March 2023 had been completed and that 80% of management actions for shared services had been completed. The target was that 90% of management actions should have been completed and the failure to achieve the target was largely attributable to the issues identified in the Commercial Services review.

Of the thirteen completed Internal Audit reviews, there were three rated as substantial assurance. They were Safeguarding, Code of Conduct and VAT. Six reviews were rated as adequate: Workshop Record Management, Community Hubs / Boost Fund, Absence Management, Key strategic partnerships and contracts, Payroll and External Funding. Four reviews were rated as limited: Utilities Management, Waste Services, Water Management and GDPR – data retention. An unplanned Internal Audit review of Commercial Services identified clear breaches of the governance framework which resulted in a significant reputational risk and failure to protect confidential data. Fig.3 (below) summarises Internal Audit assurance levels in 2021/22 and 2022/23.

Fig.3 Internal Audit Review assurance performance

Assurance Level	2021/22	%	2022/23	%
Full	0	0	0	0%
Substantial	4	25%	3	21%
Adequate	8	50%	6	43%
Limited	4	25%	5	36%
Totals	16		14	

In our Auditor's Annual Report 2021/22 we made a recommendation relating to effective controls in on-boarding and managing contractors, including specific controls where contractors have access to the Council's IT systems. The absence of proper controls and processes exposed the Council to risk and was a significant weakness which was present during 2022/23. We have therefore repeated this recommendation (**key recommendation 1**).

We made a second key recommendation in our Auditor's Annual Report 2021/22 about the organizational architecture which is required to ensure that appropriate safeguards, checks and balances operate effectively to provide the assurance that officers acting improperly will be detected by Council systems and the need to carry out an exercise to identify whether there were similar cases elsewhere in the Council. This significant weakness was also present in 2022/23 and so we have also repeated this recommendation (**key recommendation 2**).

We recognise that in 2023/24 the council has responded to these key recommendations made in our Auditor's Annual Report 2021/22 by putting in place changes to the process to create access to the Council network which explicitly identifies the type of access being granted (for example, contractor, permanent employee, fixed term employee). We also note that changes have been made to require the agreement of a Director, documenting necessity and extent of access required. A regular check of network access for contractors has also been introduced and a new file saving system, making use of Microsoft Teams, will enable controlled external access to individual files. The rollout of the new file storage system will allow for meta-data such as tagging where files are confidential and their retention periods.

We further note that evidence has been provided to us by the Council that systems are in place to identify instances where confidential information is being copied to an external email address which enables the Council to take the appropriate action. The Council has developed its arrangements through a Corporate Governance Group which monitors the Council's internal governance, with agenda items including Annual Governance Statement actions, ICT Programme updates and rotational updates from Heads of Service. Also, a review total spend with individual Creditors > £50k across the last 3 years has been completed.

We have therefore concluded that the changes made by the Council following the Internal Audit Report and our Auditor's Annual Report 2021/22 represent a robust response and that the completion and embedding of these actions during 2023/24 should provide the Council with assurance that these significant weaknesses will have been addressed but because these changes were not all in place in 2022/23 we report the same significant weaknesses.

Governance (cont'd)



Governance assurance

The Governance Committee met six times in 2022/23 and considered reports on the internal and external audit plans and progress, the Local Code of Corporate Governance, the Statement of Accounts, Treasury mid-year Review, the Constitution, Audit and Risk, the Internal Audit Annual Report, the Annual Governance Statement and the external Auditor's Annual Report.

Governance Committee meetings were well-attended and provided opportunities for members to question and challenge.

The Council had procedures and policies in place to address the threat of security or cyber-attack, which included an external review. Data breaches in 2022/23 were monitored. The Council carried out cyber penetration testing to test the robustness of Information Systems and ascertain and act on weaknesses.

The draft Annual Governance Statement was approved by the Governance Committee on 23 May 2023. It was prepared in accordance with CIPFA/SOLACE guidance. The statement is under-pinned by work carried out by the Corporate Governance Group and it highlighted the roll-out of new Human Resource (HR) policies which had brought consistency across staff working in shared services and developed a new suite of policies which can be accessed through an online HR Hub. The Statement also noted improvements made to business planning, contracts and partnerships, project management, performance management, risk management and report writing.

The Annual Governance Statement reported completion of eleven out of seventeen actions on governance issues identified in the previous Annual Governance Statement. Nine areas for improvement were identified for 2022/23 (See Fig. 4)

Fig. 4 Governance improvements and Audit opinions 2021/22 and 2022/23

	2022/23	2021/22
Annual Governance Statement (no. of areas for improvement)	Nine	Seventeen
Head of Internal Audit opinion	Adequate	Adequate

Standards and behaviours

The Council's constitution is based on a Cabinet and Scrutiny system which includes a Governance Committee, Standards Committee, a Shared Services Joint Committee as well as a Scrutiny Committee. A corporate governance group of senior officers including the Council's statutory officers oversaw the application of governance arrangements and required service assurance statements which assessed compliance with the governance framework. Senior leaders communicated with staff about the importance of compliance with governance requirements.

A Code of Conduct for Members is in Part 5 of the Council's constitution and set out the conduct required of Members, their obligations in respect of declarations of interest and registering of gifts and hospitality, and arrangements for dealing with complaints. An Employee Code of Conduct set out rules and protocols for officer behaviour. The Standards Committee was responsible for determining any standards allegations and for convening Hearing and Appeals panels to hear and determine complaints where appropriate. The constitution also included a protocol for Member / Officer relations

Gifts and Hospitality were recorded in the Register of Interests and regular reminders were issued to Members to ensure they were updated. Details relating to each Member were available on the Council's website and these records provided evidence that gifts and hospitality were being declared. Work is carried out by Internal Audit to test the recording of declarations of interest as part of the Annual Governance Statement work.

A whistleblowing policy was available on the Council website. It set out how issues could be raised, arrangements for confidentiality, ways of raising concerns externally and sources of information and advice.

There was evidence of a good tone being set by those at the top of the organisation with an open and accepting approach to the challenges faced by the Council, a collaborative approach at senior levels and clear communications within the organisation about compliance with governance processes. The transition to a new shared Chief Executive Officer (internal appointment) appeared to have progressed well and there has been a strong emphasis on improving staff understanding of governance obligations, particularly in the light of staff turnover in some key areas of management responsibility.

Governance (cont'd)



Governance Conclusions

The Council had significant weaknesses in 2022/23 in respect of its management of contractors and safeguards which would prevent controls being circumvented. We identified these weaknesses in our Auditor's Annual Report 2021/22 and they continued to be present during 2022/23. We have therefore reported the two key recommendations we made about Governance. The Council has made substantial progress in addressing these significant weaknesses in 2023/24 which we have made reference to in this report and which represent a positive direction of travel.

We are satisfied that, other than the two significant weaknesses which we have raised again for the audit year of 2022/23, the arrangements for Internal Audit, Governance assurance and standards were adequate.



Agenda Item 4

Improving economy, efficiency and effectiveness



We considered how the Council:

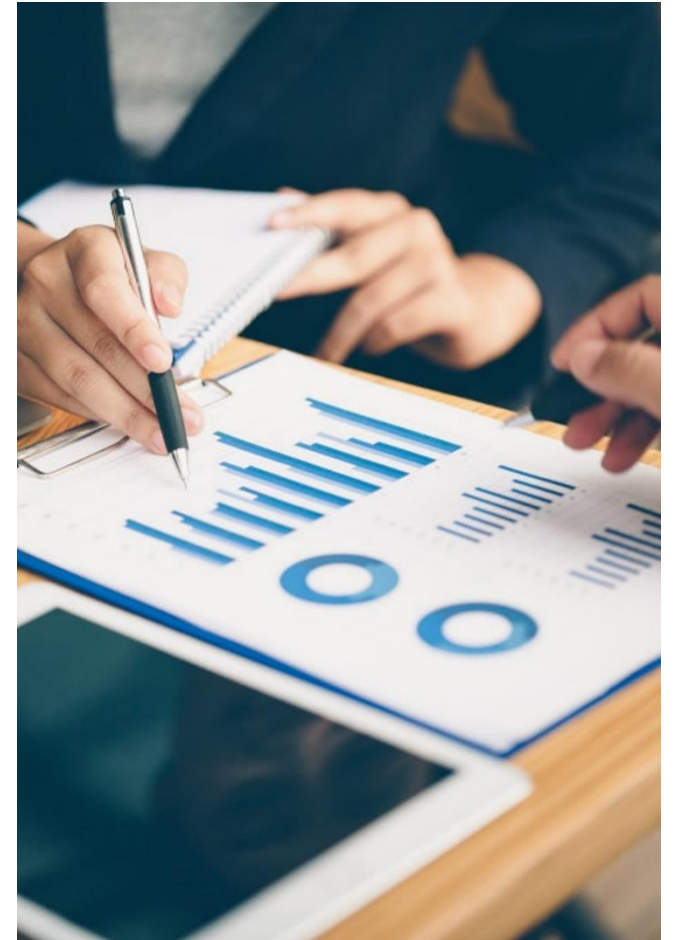
- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives
- where it commissions or procures services assesses whether it is realising the expected benefits.

Use of financial and performance information

Quarterly performance reports were provided to Cabinet and to the Scrutiny Budget and Performance Panel. The reports summarised overall performance and provided a narrative of performance for each of the four priorities within the Council's corporate plan. The reports used Red-Amber-Green (RAG) rating to report progress on the delivery of key projects within the Plan. Reports included key performance indicators relating to the corporate priorities.

For example, Quarter Two performance reporting in 2022/23 showed no red rated projects across all of the Council's four corporate priorities. The decarbonisation project for leisure centres was rated amber due to the risk of delays and cost uncertainty. Similarly, the McKenzie Arms affordable homes scheme was also rated amber because of delays attributable to supply chain issues and contractor delays. Key performance indicators were used to monitor organisational performance in corporate priority areas. For example, the number of Households in Temporary Accommodation was reported as 52 in Quarter Two, up from the previous Quarter and higher than the same Quarter in the previous year. The Council's performance reporting was therefore linked to its corporate priorities and reported performance trends with the use of colours and symbols to interpret performance data.

Regular reports to the Scrutiny Budget and Performance Panel financial reporting including directorate level reporting. Budget variances were reported with a narrative explaining them and setting out actions being taken. For example, the additional forecast spending on Temporary Accommodation of £616,000 which was reported to Cabinet on 15 November 2023 included actions aimed at re-focussing the service on homelessness prevention, re-opening accommodation units, using two private sector leasing schemes, and reviewing capacity.



Improving economy, efficiency and effectiveness (cont'd)

Use of financial and performance information (cont'd)

Our view of the Grant Thornton / CIPFA CFO Insights financial benchmarking data identified two areas of relatively high unit costs. Cultural, Planning and Other services is one area which reflects the post pandemic spending on supporting the recovery of leisure services as well as the rise in utility costs. The second area of high spending relates to Open Spaces, Community Development and Economic Development.

Whilst these are mainly discretionary services, they relate closely to two of the Council's corporate priorities – A Fair Economy that Works for Everyone and Good Homes, Green Spaces, Healthy Places. The former priority includes work to develop the Leyland Town Deal (£38 million investment) and a Cost of Living Action Plan. The latter includes decarbonisation plans, affordable homes and tree-planting schemes. The Council is also investing in climate change activity through carbon calculations on vehicles and assets as well as a tree planting strategy. Whilst we acknowledge that areas of higher spending in comparison with other councils reflect the Council's corporate priorities, higher unit costs may indicate potential for improving efficiency. The Council could make more effective use of performance bench-marking to explore this potential and we have therefore made an improvement recommendation about this. (Improvement recommendation 2)

The Council had a deepening relationship with Chorley Borough Council (CBC) which was based on shared services but also included mutual support and learning where one council has experience or expertise which the other doesn't. For example, Enforcement and anti-social behaviour challenges at CBC were supported by the Council. The Council also had collaborative arrangements with neighbouring authorities through the Central Lancashire Local Plan.

On 21 Feb 2023 a report to the Joint Shared Services Board indicated an overall saving of £1.6 million to the two councils, of which £700,000 was the saving to the Council, from the implementation of phases 1 and 2 of the shared service strategy. 47% of the workforce for the two councils were now involved in providing services for both councils. New employment terms and conditions had been adopted by both councils together with a shared Human Resources Framework. Phase 1 of the shared services work brought Governance, Transformation and Partnerships, Communications and Visitor Economy together. Phase 2 added ICT and Customer Services. The councils now had a shared Chief Executive and Directors.

The Council built on this work by looking at Property and Asset functions and this is likely to be followed by Business Support and Economic Growth. Further opportunities in Public Protection, Environmental Health and Planning would be considered in the future. The councils used a framework to evaluate shared service potential which considered whether they would be able to continue to deliver their own priorities, whether a shared model was possible and whether the two councils had a shared need for the service. The evaluation process also looked at pragmatic issues such as capacity, recruitment issues and opportunities for alignment.

Other performance and financial benchmarking data for 2022/23 published by the Office for Local Government (OFLOG) indicates that the Council performed well on the percentage of household waste sent for recycling in comparison with other Lancashire and North-West districts. In terms of financial comparators, the Council had no long-term borrowing whereas the average for District Councils is 15% long-term borrowing as a proportion of long-term assets. This placed the Council in a good financial position compared to the sector as a whole.

At the end of 2022/23, General Fund reserves were 87% of net revenue expenditure compared to an average of 142% for district councils. The 2021/22 data from the CIPFA Resilience Index was reported to Governance Committee in May 2023 and this included data from the previous two years on the reserves sustainability measure and seven other measures. This provided the Council with the opportunity to compare its financial resilience position with a group of statistical nearest neighbour local authorities.

Overall, we consider that the Council makes effective use of a range of financial data to monitor and assess and compare its financial performance. We have made an improvement recommendation about the more effective use of performance benchmarking data to drive improvement in its economy, efficiency and effectiveness.

Improving economy, efficiency and effectiveness (cont'd)

Partnership working

The Council prioritises working with partners to make things better as part of its Corporate Plan ambitions. In the 2023/24 iteration of the Corporate Plan, the Council specifically focuses on joining up public provision for early years provision. In reviewing its Corporate Plan the Council recognised that best practice had been identified in the South Ribble Partnership which was informing the new joint partnership with Chorley Public Service Reform. The strategy aims to bring public services together to reduce duplication and make best use of resources. The Council also collaborates on a neighbourhood level through Community Hubs in five neighbourhood areas across the borough. A Town Fund Board has been established to oversee the Leyland Town Deal.

The Council also has shared strategic ambitions with other Lancashire local authorities which are set out in the Lancashire 2050 Framework.

The Cabinet received reports on the work of key partnerships and where these formed part of the Corporate Plan, key performance indicators were reported. Examples included the Mental Health Action Plan, and the Select Move Partnership (Housing allocations).

The Council's most significant partnership activities are through the Shared Service arrangements with CBC which are monitored and reported through a Joint Committee.

The Council worked with a wider range of partners including key stakeholders in preparing its annual budget and engaged in appropriate consultation for individual proposals. For example, the Cabinet approved a public consultation event for the Worden Park Improvement Plan on 14 September 2022.

The Council effective engagement with a wide range of partners and integrates its partnership work with its strategic priorities. However, the Council does not currently produce a partnership strategy which pulls together its approach to partnership working so that partnership priorities and key partners are explicitly identified and can be reviewed periodically. We have made an improvement recommendation that a partnership strategy should be produced and reviewed periodically. (improvement recommendation 3).

Commissioning and procurement

The Council's Contract Procedure Rules are set out in Part 4 of the Council's Constitution. They defined the processes and approach to procurement and specific requirements for contracts of low value (under £25,000), intermediate value (£25,000 to £100,000) and high value contracts (over £100,000). The Rules made specific provision for their application to the appointment of consultants to the Council.

In our Auditor's Annual Report 2021/22, published in July 2023, we reported on additional risk-based work relating to an Internal Audit Review into procurement in the Commercial Services Directorate. This work identified breaches of the contract procedure rules in respect of procurement of contractor services, a lack of coordination and proper documentation and under-resourcing of the procurement function. We made a key recommendation (key recommendation 3) to address a significant weakness in relation to the responsibility for and resourcing of procurement functions, renewal of the procurement strategy and proper training and qualified personnel in procurement.

The significant weakness which we identified in our 2021/22 Auditor's Annual Report, was present during 2022/23 and we have therefore repeated the recommendation (key recommendation 3) relating to the procurement function and strategy.

However, we recognise the progress the Council is making in 2023/24 by strengthening the shared service procurement team, using external capacity and improving procurement monitoring. A senior qualified procurement officer has been appointed and external support has been provided by Blackburn with Darwen Council. Procurement needs and future staffing requirements have been reviewed and a business partnering approach is being developed. The Contracts Transparency Register is now being maintained and the Council intends to review its Procurement Strategy in early 2024.

Improving economy, efficiency and effectiveness (cont'd)

Commissioning and procurement (cont'd)

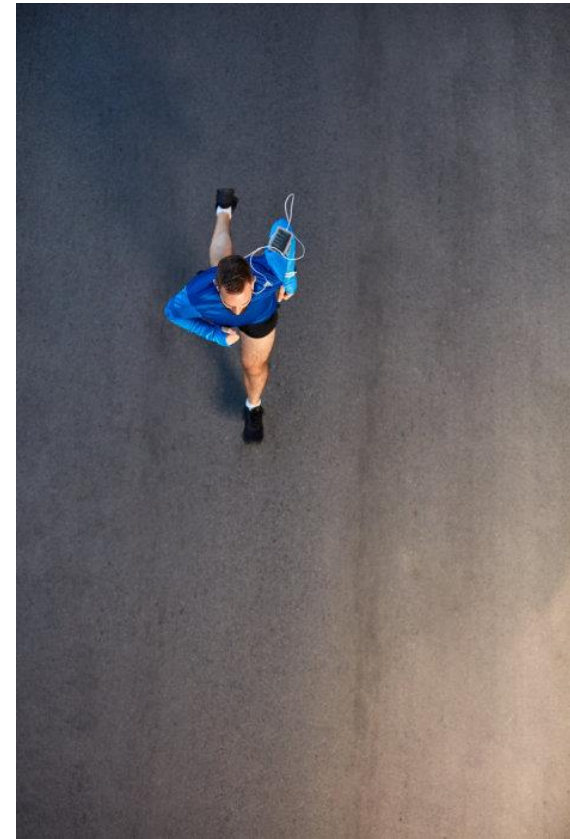
A planned Internal Audit Report in 2022/23 into Utilities Management resulted in a Limited Assurance Opinion and identified weaknesses in Utilities management which included failure to undertake a procurement exercise of water supplies since the deregulation of commercial water supplies. This is further evidence of the weakness in the responsibility for procurement and contract management and we made an improvement recommendation about this in our Auditor's Annual Report 2021/22. The Council has subsequently entered into a managed utilities contract to address this weakness.

Conclusions – Improving economy, efficiency and effectiveness

The Council has an effective approach to performance management and reporting which enables it to assess progress towards delivering its corporate priorities. The Council uses financial performance comparators to help assess its own performance in a wider context. The Council has a mature approach to partnership working which is focussed on helping to achieve its priorities. We have made an improvement recommendation that the Council should produce a partnership strategy.

We have noted the Council's substantial work undertaken by the Council in 2023/24 which is aimed at addressing the significant weaknesses in contract and procurement arrangements which we identified in our Auditor's Annual Report 2021/22. The significant weaknesses in relation the resourcing of procurement functions in the Council continued to be present during 2022/23 so we have reported the Recommendation we made in our Auditor's Annual Report 2021/22 (**key recommendation 3**). A planned Internal Audit report into Utilities Management in 2022/23 highlighted failures in the procurement of water supplies which indicated the systemic nature of these weaknesses.

We are satisfied that, other than these significant weaknesses, the arrangements for use of financial and performance information, and partnership working are appropriate.



Improvement recommendation 2



Improvement Recommendation 2

The Council should make more effective use of performance bench-marking information to explore the potential for improving efficiency.

Improvement opportunity identified There is an opportunity for the Council to use comparative information to explore service areas with higher unit costs and improve efficiency.

Summary findings The Council makes effective use of a range of financial data to monitor and assess and compare its financial performance. However, there is scope for more effective use of performance bench-marking data to drive improvement in its economy, efficiency and effectiveness.

Criteria impacted Economy, Efficiency, and Effectiveness

Auditor judgement Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.


Management comments

South Ribble Borough Council are committed to making more effective use of performance benchmarking to support our performance measures by identifying performance successes and areas for improvement. The Council is registered with LG Inform, which provides comprehensive benchmarking tools, and will regularly review the data and intelligence available against priority areas of work, for example when developing proposals to effectively manage the budget during 2024/25. The Council are also monitoring the development of OFLOG and the benchmarking data that has been provided to date in their Data Explorer tool. We will use the suite of metrics to enable performance comparisons with our peers and statistical neighbours, helping us to identify areas for improvement and opportunities for sharing and learning.

We use a 1,2,3 approach to data quality through defined roles and responsibilities at all levels, which has been identified as good practice by the Local Government Association. The Performance and Partnership Team are proactive around data auditing, working alongside Officers and Senior Responsible Officers on an ongoing basis to ensure corrective action is taken at the earliest opportunity. The Council undertakes a residents survey every two years which is framed around the Local Government Association question set and guidance for resident benchmarking, this enables benchmarking of resident perception and satisfaction against national and regional comparators.

New members of the Senior Leadership team joined the Council in January 2024 and this has enabled further learning and developing opportunities through benchmarking through membership of the LGA Transformation Leads Group, the INetwork and membership of Knowledge Hub, including the Improvement and Performance Group.

Improvement recommendation 3

 Improvement Recommendation 3	The Council should produce a partnership strategy for approval and periodic review.
Improvement opportunity identified	The Council
Summary findings	The Council has effective engagement with a wide range of partners and integrates its partnership work with its strategic priorities. However, the Council does not currently produce a partnership strategy which pulls together its approach to partnership working so that partnership priorities and key partners are explicitly identified and can be reviewed periodically.
Criteria impacted	Economy, Efficiency and Effectiveness
Auditor judgement	Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.
Management comments	<p>Lancashire 2050 is the long-term strategic plan for Lancashire. It was initiated by Lancashire's 15 councils and involves other key stakeholders, setting out a shared vision and priorities for the future of the county. It aims to ensure that Lancashire speaks with one voice and focuses on the things that are most important. There are county and regional partnerships in operation focused on health and economic growth, as well as district partnerships to deliver at the local and neighbourhood level. The Chorley and South Ribble Partnership was established in September 2021 and exists to ensure that partners and services are collaborating across both boroughs.</p> <p>There are also other strategic and statutory partnerships and forums in operation that support cooperative ways of working. South Ribble Council does not have a separate partnership strategy, the Chorley and South Ribble Partnership Strategy 2021 – 2024 serves both councils. The document clearly sets out our key partners, priorities for improved system working and governance arrangements. The Partnership meets at least three times a year to review and monitor the work being undertaken around the priorities and, will often establish task groups to focus on specific areas such as early years.</p> <p>A key piece of work of the Chorley and South Ribble Partnership is the development of a data platform which will enhance sharing of data and intelligence across the system. It is envisaged that wider data sharing will improve strategic and operational decision making as a collective as a well as a council and enable targeting of resources more effectively to deliver the greatest impact for residents. The Council's Corporate Strategy is aligned with the priorities set out in Lancashire 2050 and the priorities set out in the Chorley and South Ribble Partnership Strategy.</p> <p>South Ribble Council's Key Contracts and Partnerships Framework was introduced in 2021. Work is being undertaken to refresh the framework, creating a shared document across South Ribble and Chorley, to improve partnership governance including monitoring processes and documentation.</p>

Follow-up of previous recommendations

Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
<p>1 The Council should review the safeguards put in place in relation to onboarding a contractor as part of the shared services arrangements. Although the contractor was not onboarded by South Ribble, the Council should be cognisant of the potential risks of any process essentially carried out by a 'third party' and the requirement for related robust controls.</p> <p>Going forward the Council needs to give due consideration to the extent of IT and documentation access required for any contractor to effectively perform their role. The Directorate responsible for the contractor, and IT, must communicate to ensure that appropriate system access is provided. Any contractor added to the Council system or who has access to Council information, must be treated on a case-by-case basis with consideration of the risks involved. This consideration must also be appropriately documented and an audit trail maintained to ensure appropriate risk management. System access must also be regularly reviewed throughout periods of employment.</p>	Key	July 2023	We have summarised progress in 2023/24 on page 22 of this report.	No	The Council has made considerable progress in 2023/24. We have re-raised this key recommendation because the significant weakness was present in 2022/23 and to ensure that the Council is focused on delivering improvements. See Key Recommendation 1
<p>2 In the case of the Commercial Services directorate officers working across both Councils were able to operate for an extended period of time outside the control framework without being picked up by the Council's safeguards, checks or balances.</p> <p>Council governance processes must ensure appropriate protection for officers as well as the organisation. The Council must consider what organizational architecture needs to be in place to ensure that the appropriate safeguards, checks and balances are in place to provide the assurance that officers acting improperly will be detected by Council systems. This will ensure appropriate protection for both officers and the organisation.</p>	Key	July 2023	We have summarised progress in 2023/24 on page 22 of this report.	No	The Council has made considerable progress in 2023/24. We have re-raised this key recommendation because the significant weakness was present in 2022/23 and to ensure that the Council is focused on delivering improvements. See Key Recommendation 2

Follow-up of previous recommendations (cont'd)

Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
<p>3 The Council must consider the role of the procurement function in respect of the whole organisation. The Council should outline the responsibilities of procurement versus service line leads in contract management and procurement and document this delineation in its Constitution. The Council must seek to renew and enhance its procurement strategy. The Council must prioritise the appropriate resourcing of its procurement function, particularly with respect to the shared services arrangement. The lack of capacity of the current procurement function is putting the Council at significant risk of failure to achieve value for money in its procurement and contract management arrangements. The Council must seek to appropriately train the employees in the procurement function. There was evidence of a limited advisory and supervisory function of the procurement team throughout this review. The procurement function is also lacking in appropriately qualified personnel. The procurement team must be aware of their responsibilities as an advisory and monitoring function and must perform this role effectively.</p>	Key	July 2023	We have summarised progress in 2023/24 on page 27 of this report.	No	The Council has made considerable progress in 2023/24. We have re-raised this key recommendation because the significant weakness was present in 2022/23 and to ensure that the Council is focused on delivering improvements. See Key Recommendation 3
<p>4 This recommendation replaces part of the improvement recommendation made in 2020/21 AAR. Refine formal reporting to Members on sensitivity analysis and scenario planning undertaken on key assumptions and estimates as part of the development of the annual budget and MTFS.</p>	Improvement	July 2023	Information regarding the sensitivity of assumptions and estimates, and the resulting financial impact of each of these, was provided to the Portfolio Exchange meeting of Executive Cabinet Members as part of the 23/24 Budget Setting process (December 2022). This is being developed further in 2023/2024 to include a review of the MTFS assumptions, sensitivity analysis and scenario planning.	Partly	In progress

Follow-up of previous recommendations (cont'd)

Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
5 To strengthen the link between strategic priorities and the capital programme, the capital programme could be categorised by specific Council Plan outcomes.	Improvement	July 2023	Schemes within the Capital Programme are now reported under the Corporate Priority to which they relate.	Yes	No
6 The Internal Audit report on Commercial Services was triggered by a routine check on the creditors system indicating the submission of a large volume of invoices to one company which did not have the appropriate procurement documents in place. We recommend that the Council implement an automated interface between the creditors system and the procurement system so as to forgo the need for manual input and upload of the necessary procurement documentation for a supplier. In lieu of the incorporation of an automated interface, the Council should perform a manual exercise to match all suppliers listed on the creditors system with corresponding contracts on the Contracts Register. This exercise would demonstrate if any of the Council's suppliers are operating outside of contract.	Improvement	July 2023	A spot-check has been carried out of contractors and a review of total spend with individual Creditors > £50k across the last 3 years has been undertaken to check for anomalies. The Council has re-procured its existing finance system supplier for two years while preparing for a market test of procuring a new finance system. As part of this the Council will explore the possibility of an interface between the Creditors system and the Contract Register.	Partly	No
7 Internal Audit carried out a review of utilities management which was reported in August 2022. This identified a number of weaknesses including some key operational risks. The Council needs to give acute attention to the recommendations of Internal Audit and ensure these are implemented on a timely basis. We acknowledge that a remedial action plan has been put in place to address the issues raised.	Improvement	July 2023	The Council agreed in October 2023 to enter into a managed utility contract which would enable better procurement, management, monitoring and verification of utilities. This will improve on the current arrangements.	Partly	In progress

Opinion on the financial statements



Grant Thornton provides an independent opinion on whether the Council's financial statements:

- give a true and fair view of the financial position of the Council as at 31 March 2023 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 2022/23
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

We conducted our audit in accordance with:

- International Standards on Auditing (UK)
- the Code of Audit Practice (2020) published by the National Audit Office, and
- applicable law

We are independent of the Council in accordance with applicable ethical requirements, including the Financial Reporting Council's Ethical Standard.

Audit opinion on the financial statements

At the time of writing our work is still in progress. We intend to issue issued an unqualified opinion on the Council's financial statements.



Agenda Item 4

Opinion on the financial statements

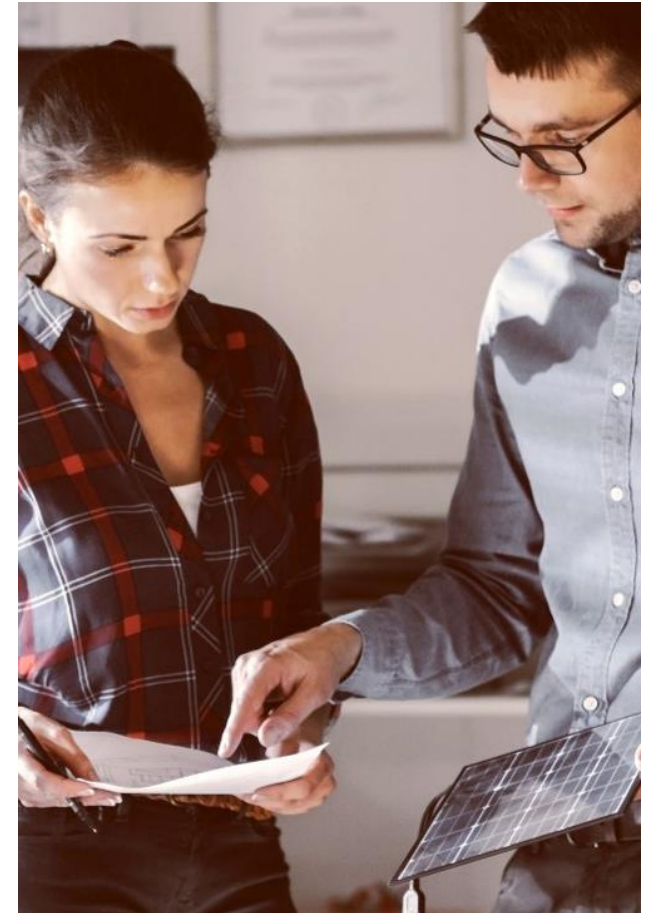


Timescale for the audit of the financial statements

- Our audit plan was issued in May 2023 and presented to the Governance Committee
- The Council provided draft financial statements in August 2023 and we commenced our audit on receipt of those statements.
- At the time of writing our work is still in progress. We intend to issue issued an unqualified opinion on the Council's financial statements.

Findings from the audit of the financial statements

More detailed findings are set out in our Audit Findings Report, which will be presented to the Council's Governance Committee in February 2024. Requests for this Audit Findings Report should be directed to the Council.



Other reporting requirements



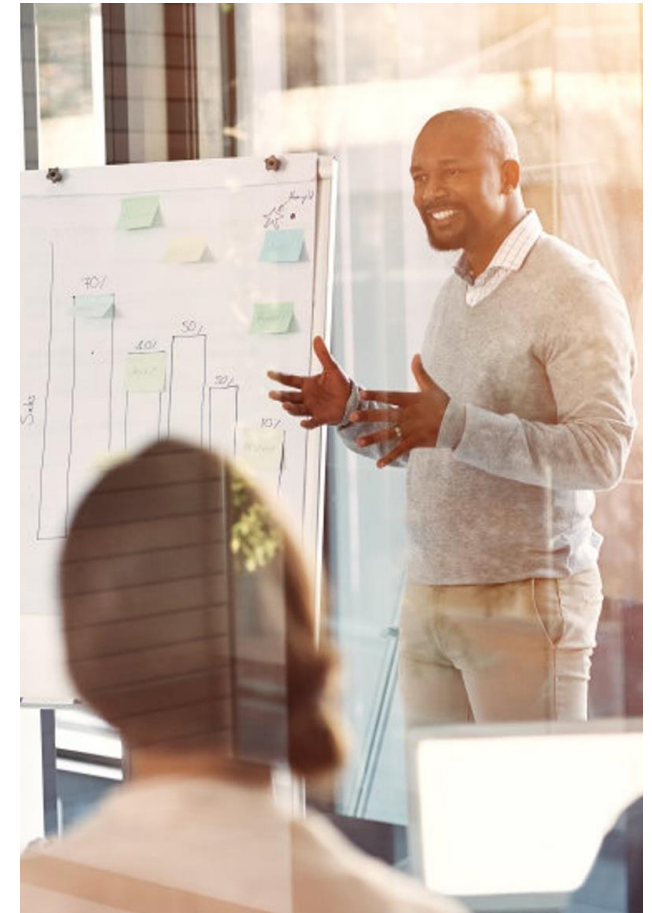
Audit Findings Report

More detailed findings can be found in our AFR, which will be published and reported to the Council's Audit Committee in February 2024.

Whole of Government Accounts

To support the audit of the Whole of Government Accounts, we are required to examine and report on the consistency of the Council's consolidation schedules with their audited financial statements. This work includes performing specified procedures under group audit instructions issued by the National Audit Office.

The Council is below the threshold which requires any detailed work to be done.



Agenda Item 4

Appendices

Appendix A: Responsibilities of the Council

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

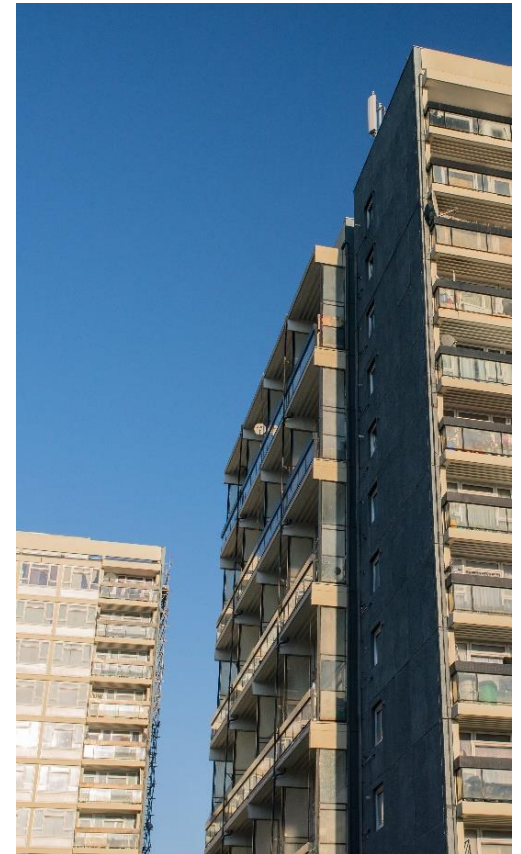
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement.

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) is required to prepare 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. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

The Council 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.



Appendix B:

An explanatory note on recommendations

A range of different recommendations can be raised by the Council's auditors as follows:

Type of recommendation	Background	Raised within this report	Page reference(s)
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.	No	
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of the Council's arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as 'key recommendations'.	Yes	7-10
Improvement	These recommendations, if implemented, should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council's arrangements.	Yes	20, 29, 30



The Audit Findings for South Ribble Borough Council

Year ended 31 March 2023



Contents



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This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management and the Governance Committee.

Georgia Jones

Name: Georgia Jones

For Grant Thornton UK LLP

Date: February 2024

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of South Ribble Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2023 for the attention of those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Council's financial statements give a true and fair view of the financial position of the Council and the Council's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Our audit work has been undertaken on site and remotely during August to November. Our findings are summarised on pages 6 to 21.

To date, we have identified adjustments to the financial statements that have resulted in a £13.978m adjustment to the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix D. We have also raised recommendations for management as a result of our audit work in Appendix B. Our follow up of recommendations from the prior year's audit are detailed in Appendix C.

This is our final report including additional adjustments to the financial statements and unadjusted misstatements.

Our work is complete subject to the following outstanding matters;

- Review of the adjustments to the draft accounts in relation to land & building revaluations
- final review of the work completed by the engagement lead
- receipt of management representation letter see appendix G; and
- review of the final set of financial statements

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated financial statements audit report opinion will be unmodified. Our work on the Council's value for money (VFM) arrangements is complete and our commentary on the Council's arrangements is included in our Auditor's Annual Report (AAR).

We are satisfied this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2023.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have completed our VFM work and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report.

In August 2023, we issued our Auditor's Annual Report 2021-22 which reported the findings and recommendations from our VFM work. We identified a significant weakness in the 2021-22 work in relation to the Council's governance arrangements for procurement with, and, onboarding of external contractors. We updated our risk assessment as we consider this risk is relevant for 2022-23.

We have considered and included references to the Council's actions to address this significant weakness (which have mainly been carried out in 2023/24) in our report. However, because this report looks at arrangements in place in 2022/23 and the significant weaknesses were present in 2022/23, we have therefore repeated the key recommendations we made in our 2021/22 Report. Our 21/22 Auditor's Annual Report was issued in August 2023 and the Council has made significant progress in addressing these significant weaknesses and implementing the recommendations in 2023/24.

Our findings are set out in the value for money arrangements section of this report (Section 3).

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.

Significant matters

We have experienced some delays in obtaining sufficient audit evidence to complete the review of IT General Controls, although we acknowledge that this was partially due to limitations of the systems and policies in place during the period under review. We have also encountered difficulties in obtaining the necessary supporting evidence to substantiate the key inputs for property revaluations. We are satisfied we have now obtained the required information.

1. Headlines

National context – audit backlog

Nationally there have been significant delays in the completion of audit work and the issuing of audit opinions across the local government sector. Only 12% of local government bodies had received audit opinions in time to publish their 2021/22 accounts by the extended deadline of 30 November. There has not been a significant improvement over this last year, and the situation remains challenging. We at Grant Thornton have a strong desire and a firm commitment to complete as many audits as soon as possible and to address the backlog of unsigned opinions.

Over the course of the last year, Grant Thornton has been working constructively with DLUHC, the FRC and the other audit firms to identify ways of rectifying the challenges which have been faced by our sector, and we recognise the difficulties these backlogs have caused authorities across the country. We have also published a report setting out our consideration of the issues behind the delays and our thoughts on how these could be mitigated. Please see [About time? \(grantthornton.co.uk\)](https://www.grantthornton.co.uk)

We would like to thank everyone at the Council for their support in working with us to progress the audit.

National context – level of borrowing

All Councils are operating in an increasingly challenging national context. With inflationary pressures placing increasing demands on Council budgets, there are concerns as Councils look to alternative ways to generate income. We have seen an increasing number of councils look to ways of utilising investment property portfolios as sources of recurrent income. Whilst there have been some successful ventures and some prudently funded by councils' existing resources, we have also seen some councils take excessive risks by borrowing sums well in excess of their revenue budgets to finance these investment schemes.

The impact of these huge debts on Councils, the risk of potential bad debt write offs and the implications of the poor governance behind some of these decisions are all issues which now have to be considered by auditors across local authority audits.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and the Governance Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment, including its IT systems and controls;
- An evaluation of the component of the group based on a measure of materiality considering each as a percentage of the Council's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that an audit of transactions of the leisure company was required
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

We are nearing completion of our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Governance Committee meeting on 06 February 2024, as detailed in Appendix H. These outstanding items are detailed on page 3.

Acknowledgements

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

2. Financial Statements



Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality benchmarks remain the same as reported in our audit plan in May 2023.

We set out in this table our determination of materiality for South Ribble Borough Council and group.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	923,000	922,000	We have used planning materiality which equates to around 1.9% of your gross operating expenditure for 2021/22 (1.8% of your gross operating expenditure for 2022/23). This is considered to be the level above which users of the financial statements would wish to be aware in the context of overall expenditure.
Performance materiality	691,000	691,000	Assessed as 75% of financial statements materiality and based on our knowledge of the Authority and consideration of previous audit findings and adjustments.
Trivial matters	46,000	46,000	Assessed as 5% of financial statements materiality
Lower materiality for senior officer remuneration	n/a	n/a	The senior officer remuneration disclosure in the Remuneration Report has been identified as an area of focus with no materiality set, due to the sensitive nature of the balance and the keen interest by users of the financial statements.



2. Financial Statements: Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary	Relevant to Council and Group
<p>Risk of fraud related to revenue recognition</p> <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including South Ribble Borough Council mean that all forms of fraud are seen as unacceptable. <p>Therefore and as reported in our Audit Plan, we do not consider this to be a significant risk. Whilst not a significant risk, we have performed audit procedures and testing of material revenue items.</p> <p>Our testing is completed and our procedures to sample test income have not identified any matters to report and have not identified any matters that would lead to a change in our risk assessment.</p>	
<p>Risk of fraud related to expenditure recognition</p> <p>In line with the Public Audit Forum Practice Note 10, in the public sector, auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition.</p>	<p>As reported in our Audit Plane, we have considered the risk of improper expenditure recognition and do not consider this to be a significant risk of material misstatement.</p> <p>Whilst not a significant risk, we have performed audit procedures and testing of material revenue items.</p> <p>Our testing is complete and our procedures to sample test expenditure have not identified any matters to report and have not identified any matters that would lead to a change in our risk assessment.</p>	
<p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. .</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which is one of the most significant assessed risks of material misstatement.</p>	<p>We have:</p> <ul style="list-style-type: none"> • evaluated the design and implementation of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness <p>We have not identified any changes to accounting policies or the estimation process.</p> <p>Our testing is complete, we have not identified any issues to report.</p> <p>In our prior year audit, we identified that there were no automated controls on the Civica finance system to prevent members of staff approving their own journals and there are no limits on authorisation of journals. We reported a recommendation and journal authorisation controls have now been implemented from February 2023 – see appendix C</p>	

2. Financial Statements: Significant risks

Risks identified in our Audit Plan

Valuation of land & buildings and investment properties

The Council revalues its land and buildings on a five-yearly basis to ensure the carrying value in the financial statements is not materially different from current value at the financial statements date. This valuation of £32.789m (£27.953m, 2021-22) represents a significant estimate by management in the financial statements.

The valuation of land and buildings is a key accounting estimate which is derived, depending on the valuation methodology, from assumptions that reflect market observations and the condition of the asset at the time. However, the valuation methodology for land and buildings is specified in detail in the CIPFA Code and the sector is highly regulated by RICS, therefore we will focus our audit attention on assets that have large and unusual changes and/or approaches to the valuation of land and buildings, as a significant risk requiring special audit consideration.

All investment properties should be valued and reported at fair value under relevant accounting principles. Again, this valuation of £10.742m (£11.159m, 2021-22) represents a significant estimate by management in the financial statements due to the size of the numbers involved compared to Council's materiality and the sensitivity of this estimate to changes in key assumptions.

We have identified valuation of land and buildings, including investment properties, as a significant risk, which was one of the most significant assessed risks of material misstatement. The risk will be pinpointed as part of our final accounts work. We will report an updated risk assessment for valuation of land and buildings in our Audit Findings Report.

Commentary

We have:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work
- evaluated the competence, capabilities and objectivity of the valuation expert
- discussed with the valuer the basis on which the valuation was carried out
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding
- tested revaluations made during the year to see if they had been input correctly into the Council's asset register
- evaluating 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 at year end.
- reviewed management's assessment of the risk of impairment of Assets Under Construction

We have made a number of inquiries to the valuer and Council officers in relation to the key data inputs and assumptions applied in the valuations. We observed, in some instances, the supporting documentation was not available and/or not up to date or the information provided to the valuer was inaccurate. For example, when reviewing evidence to substantiate rental income, we identified the Council has several properties occupied by tenants with expired leases. We have reported a recommendations for improvement in Appendix B.

An assessment of assets not revalued in year has been undertaken, to provide assurance that the carrying value is not materially different to the current value at year end. The assessment indicated that there is difference of £0.238m between the current value and carrying value.

We have also undertaken our own procedures in this area including comparison with industry indices and a substantive review of the desktop valuations. We are awaiting responses to queries raised with the external valuer.

The audit team's review of the accounting for revaluations in 2022-23 identified that valuation movements had been allocated incorrectly between the CIES and revaluation reserve. Upon review, it was identified this was a result of a formulae error in the asset register which also affected the 2021-22 workings. Management recalculated the valuation movements for both 2021-22 and 2022-23 and determined the overall impact is a misclassification of valuation increases between the revaluation reserve and CIES (reversal of previous impairment). We also identified an understatement of land & buildings net book value as a result of inconsistencies in the accounting for accumulated depreciation. These misstatements have been adjusted in the final accounts assets have increased £1.065m for 2022-23. The impact for 2021-22 is £0.042m which is trivial.

Our work is substantially complete and, to date, we have not identified any other matters in respect of valuation of land and buildings and investment properties.

Relevant to Council

2. Financial Statements: Significant risks

Risks identified in our Audit Plan

Commentary

Relevant to Council and Group

Valuation of pension fund net surplus

The Council's pension fund net surplus, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.

The pension fund net surplus is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.

The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). However, for the first time since IFRS have been adopted the council has had to consider the potential impact of IFRIC 14 - IAS 19 -the limit on a defined benefit asset. Because of this we have assessed the recognition and valuation of the pension asset as a significant risk.

The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable.

The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary.

A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount and inflation rates, where our consulting actuary has indicated that a 0.1% change in these two assumptions would have approximately 2% effect on the liability/surplus. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Council's pension fund net liability as a significant risk.

We have:

- updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls;
- evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;
- assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability;
- tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;
- undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and
- obtained assurances from the auditor of Lancashire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

The Council recognised the full pension surplus and a net pension asset of £12.485m in the draft accounts presented for audit. We recommended that the Council undertook or obtained an IFRIC 14 assessment to determine the extent to which the pension surplus should be recognised as a net pension asset.

In October 2023, the Council commissioned the actuary to undertake an IFRIC 14 assessment of the pension surplus and this determined that an asset ceiling should be applied to reduce the net asset to nil. There is an unfunded defined benefit liability of £2.558m that should have been recognised under IAS19 in the draft 2022-23 accounts. This relates to termination benefits made on a discretionary basis upon early retirement in respect of members of the pension scheme. Previously this balance had been included within the overall pension fund liability amount. With the move to a pension fund asset position this amount should have been accounted for separately as a liability on the Authority's balance sheet.

The draft accounts have been updated to include the two adjustments and additional narrative disclosure added to the pensions notes.

Additionally, the assessment determined that an asset ceiling should be applied to the pension surplus arising in the South Ribble Leisure Ltd accounts which are consolidated into the group accounts. The net pension asset of £0.248m has been reduced to nil.

We have received final assurance letter from the pension fund auditor. Our work is now complete, we have no further matters to report.

2. Financial Statements: new issues and risks

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant deficiencies identified during the year.

Issue	Commentary	Auditor view
<p>Cyber Security</p> <p>We note that the Council does not have a formal policy covering cyber risk.</p>	<p>1 in 3 UK entities suffer from a cyber breach every month, so it's more a case of 'when' an attack happens, not 'if'.</p> <p>High profile cyber-attacks undermine trust in an organisation and shatter hard won reputations and consumer trust. Over 80% of the cyber-attacks we read about could have been prevented through good simple cyber hygiene. Understanding and managing cyber risk is fundamental to any business's growth journey.</p>	<p>Auditor view</p> <p>We recommend that the Council proactively looks at its cyber preparedness and puts in place appropriate policies/safeguards.</p> <p>Management response</p> <p>Cyber Security officer recently hired and working on implementing and improving security policies. Information Security Framework and Patching Policy have been completed and further changes planned to improve user creation and deletion.</p>
<p>IT Control deficiencies</p> <p>We have reviewed the IT General Controls for the in-scope financial systems. Our review identified some deficiencies in the processes in place during the period under review:</p> <ul style="list-style-type: none"> Evidence of requests and approvals of changes to privileged user access is not retained for more than 30 days There are no periodic reviews of user access Our review identified cases where user access was not removed on a timely basis The Council did not have a formal change management policy in place until March 2023 and details of changes to IT applications implemented during the period under review was not readily available 	<p>We have encountered some delays in obtaining sufficient audit evidence to complete this review.</p> <p>We have included summary of IT controls findings in Appendix J.</p>	<p>Auditor view</p> <p>We recommend that the Council reviews the security & access management procedures and change management processes and and puts in place appropriate policies and controls in line with best practice.</p> <p>Management response</p> <p>Cyber Security officer recently hired and working on implementing and improving security policies. Information Security Framework and Patching Policy have been completed and further changes planned to improve user creation and deletion.</p>

2. Financial Statements – Key findings arising from the group audit

Component	Component auditor	Findings	Group audit impact
South Ribble Borough Council	Grant Thornton	<p>The Group accounts were provided for audit on 12 October 2023</p> <p>We reviewed the Council’s procedures and consolidation calculations for the consolidation of South Ribble Leisure Ltd with the Council’s accounts. No issues were identified.</p> <ul style="list-style-type: none"> • We have obtained sufficient assurances over any material balances and transactions outside the group boundary. • We completed a review of the group consolidation process and there are no issues identified that need reporting to the Governance Committee. 	<ul style="list-style-type: none"> • Our group audit work is now completed and we have not identified any issues to report as a result of our findings. • We are satisfied that the Group accounts after taking account intercompany transactions, are not materially misstated.
South Ribble Leisure Ltd	Not applicable	<p>Risks identified as per our audit plan were:</p> <ul style="list-style-type: none"> - Management override of controls - Valuation of Pension Fund Liability <ul style="list-style-type: none"> • We have completed a review of the group consolidation process and there are no issues identified that need reporting to the Audit Committee. • We have substantively tested a sample of the income and expenditure transactions in the leisure company 	Our work is complete. We have no findings to report to date

2. Financial Statements: key judgements and estimates

This section provides commentary on key estimates and judgements in line with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £32.789m	Other land and buildings includes specialised assets such as leisure centres which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision.	<p>We have</p> <ul style="list-style-type: none"> undertaken an assessment of management's experts reviewed the completeness and accuracy of the underlying information used to determine the estimate reviewed the impact of any changes to valuation method checked the consistency of estimate against near neighbours agreed the reasonableness of the increase/decrease in estimate reviewed the adequacy of disclosure of estimate in the financial statements. 	Light purple
Investment Properties – £10.742m	<p>The remainder of other land and buildings are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged Sanderson Weatherall to complete the valuation of properties as at 31 March 2023 on a five yearly cyclical basis. 74% of total assets were revalued during 2022/23.</p> <p>Management have considered the year end value of non-valued properties and the potential valuation change in the assets revalued at 31 March 2023. This has been supported by a desktop review of assets by Sanderson Weatherall.</p> <p>Management identified material changes to the valuation of properties. Where applicable, the identified assets were subject to a full revaluation.</p> <p>Management's assessment of assets not revalued (£8.349m) has identified no material change to the properties value as at 31 March 2023.</p>	<p>The valuation method remains consistent with the prior year.</p> <p>The Valuer has prepared their valuations in accordance with RICS Valuation – Global Standards.</p> <p>As reported on page 9, we encountered some difficulty in obtaining evidence from the estates team to substantiate the key inputs to the valuations and identified some inaccuracies in the information that had been supplied to external valuer. We have reported a recommendation for improvement in Appendix B.</p> <p>An assessment of assets not revalued in year by management has been undertaken, to provide assurance that the carrying value is not materially different to the current value at year end. The assessment indicated that there is difference of £0.238m between the current value and carrying value.</p> <p>We have also undertaken our own procedures in this area including comparison with industry indices and a substantive review of the desktop valuations. We are awaiting responses to queries raised with the external valuer.</p> <p>Our work is substantially complete and we have not identified any other matters in respect of valuation of land and buildings and investment properties.</p>	

2. Financial Statements: key judgements and estimates

Significant judgement or estimate

Summary of management's approach

Audit Comments

Assessment

Net pension surplus – £12.485m

IFRIC 14 addresses the extent to which an IAS 19 surplus can be recognised on the balance sheet and whether any additional liabilities are required in respect of onerous funding commitments.

IFRIC 14 limits the measurement of the defined benefit asset to the 'present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The Council's [total] net pension liability at 31 March 2023 is £12.485m comprising the Lancashire Pension Fund Local Government Scheme and £2.558m of unfunded defined benefit pension scheme obligations. The Council uses Mercer to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years.

The latest full actuarial valuation was completed in 2022. Given the significant value of the net pension fund liability (surplus), small changes in assumptions can result in significant valuation movements.

There has been a £48.283m net actuarial gain during 2022/23.

We have:

- Assessment of management's expert
- Assessment of actuary's approach taken, detail work undertaken to confirm reasonableness of approach
- Use of PwC as auditors expert to assess actuary and assumptions made by actuary – use table to compare with Actuary assumptions

Assumption	Actuary Value	PwC range	Assessment
Discount rate	4.8%	4.7 - 4.8%	●
Pension increase rate	2.8%	2.8%	●
Salary growth	4.2%	3.2 - 5.2%	●
Life expectancy – Males currently aged 45/65	22.8 / 21.5	22.4-24.3 / 21.0-22.6	●
Life expectancy – Females currently aged 45/65	25.6 / 23.8	25.3-26.6 / 23.5-24.7	●

We have also reviewed:

- the completeness and accuracy of the underlying information used to determine the estimate
- the impact of any changes to valuation method
- Reasonableness of the Council's share of LPS pension assets.
- Reasonableness of increase/decrease in estimate
- Adequacy of disclosure of estimate in the financial statements

We have also obtained assurances from the auditor of the Local Government Pension scheme.

Light purple

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Assessment

- [Dark Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements: key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Provisions for NNDR appeals - £1.737m	<p>The Council are responsible for repaying a proportion of successful rateable value appeals. South Ribble's calculation is based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) for the 2010 listing and previous success rates.</p> <p>Whilst earlier outstanding appeals have fallen, the Council has included an estimate for appeals in from 2017-18 to 2022-23 of approximately 3.0 per cent. The provision has decreased £0.614m from 31 March 2022.</p>	<p>We have:</p> <ul style="list-style-type: none"> reviewed the appropriateness of the underlying information used to determine the estimate reviewed the impact of any changes to valuation method checked the consistency of estimate against industry practice agreed the reasonableness of the increase in estimate reviewed the adequacy of disclosure of estimate in the financial statements. <p>Our work in this area is ongoing and, to date, we have not identified any findings to report.</p> <p>A revaluation of the rateable value of business properties came into effect on 1 April 2023. Appeals in regards to the 2017 rating valuation list had to have been submitted by 31 March 2023; the list was "closed" after this date and further appeals are only possible by exception.</p> <p>We recommended the Council reviews the calculation of the appeals provision to ensure it adequately reflects this change. The revised provision has increased £0.308m from the draft accounts. This has not been adjusted in the final accounts on the basis of materiality and is included in the unadjusted misstatements in Appendix D.</p>	Light purple

Assessment

- [Dark Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements: key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision - £0.358m	<p>The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance.</p> <p>The Council's policy for MRP for pre 2008 borrowing is a charge at the rate of 4% in accordance with the Regulatory Method.</p> <p>In the case of all capital spend finance by Prudential Borrowing; this is subject to MRP under the Asset Life Method - equal instalments charged over the estimated useful life of the asset. MRP is based on the estimated life of the assets, in accordance with the regulations.</p> <p>The year end MRP charge was £0.358m, a net increase of £0.060m from 2021/22.</p>	<p>We have examined:</p> <ul style="list-style-type: none"> whether the MRP has been calculated in line with the statutory guidance whether the Council's policy on MRP complies with statutory guidance. Assessed whether any changes to the Council's policy on MRP have been discussed and agreed with those charged with governance and have been approved by full council Reasonableness of the increase/decrease in MRP charge <p>At 31 March 2023, the Council's MRP was £0.358m. At 31 March 2022 the MRP was £0.298m. The MRP represents 5.81% of the Council's overall Capital Financing Requirement. This has decreased from 8.49% at 31 March 2022.</p> <p>Across the sector, government have consulted on changes to the regulations that underpin MRP, to clarify that capital receipts may not be used in place of a prudent MRP and that MRP should be applied to all unfinanced capital expenditure and that certain assets should not be omitted. The consultation highlighted that the intention is not to change policy, but to clearly set out in legislation, the practices that authorities should already be following. This is still being reviewed and government will issue a full response to the consultation in due course.</p>	Light purple

Assessment

- [Dark Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements: Information Technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas.

IT application	Level of assessment performed	Overall ITGC rating	ITGC control area rating			Related significant risks/other risks	Additional procedures carried out to address risks arising from our findings
			Security management	Technology acquisition, development and maintenance	Technology infrastructure		
Civica	ITGC assessment (design and implementation only)	●	●	●	●	Management override of controls	
iTrent	ITGC assessment (design, implementation only)	●	●	●	●	No significant risk identified	

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Assessment

- Significant deficiencies identified in IT controls relevant to the audit of financial statements
- Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
- IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
- Not in scope for testing

2. Financial Statements: other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Governance Committee. We have not been made aware of any other incidents in the period and no issues have been identified during the course of our audit.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council, including specific representations in respect of the Group, which is set out at Appendix G
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Council's bankers. This permission was granted and the requests were sent and were returned with positive confirmation.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/significant difficulties	We have experienced some delays in obtaining sufficient audit evidence to complete the review of IT General Controls, although we acknowledge that this was partially due to limitations of the systems and policies in place during the period under review. We have also encountered difficulties in obtaining the necessary supporting evidence to substantiate the key inputs for property revaluations. We have not encountered any other significant difficulties during the audit.

2. Financial Statements: other communication requirements



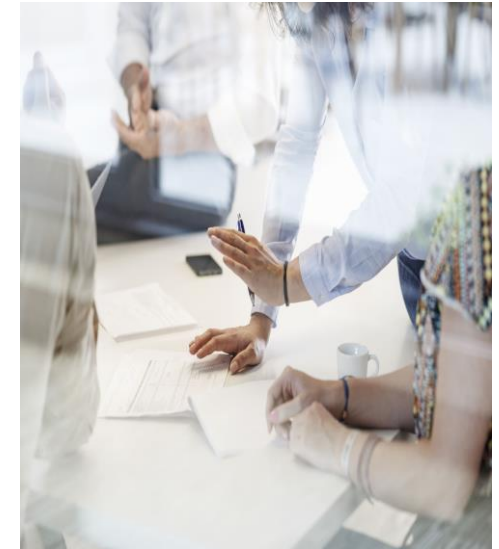
Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Issue	Commentary
Going concern	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p>Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul style="list-style-type: none"> the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul style="list-style-type: none"> the nature of the Council and the environment in which it operates the Council's financial reporting framework the Council's system of internal control for identifying events or conditions relevant to going concern management's going concern assessment. <p>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none"> a material uncertainty related to going concern has not been identified management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements: other responsibilities under the Code

Issue	Commentary
Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to Appendix H</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. <p>We have nothing to report on these matters</p>



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2. Financial Statements: other responsibilities under the Code

Issue	Commentary
Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>Detailed procedures are not required as the Council does not exceed the threshold.</p>
Certification of the closure of the audit	We intend to certify the closure of the 2022/23 audit of South Ribble Borough Council when we issue the audit report.

3. Value for Money arrangements (VFM)

Approach to Value for Money work for 2022/23

The National Audit Office issued its guidance for auditors in April 2020. The Code requires auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.



Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3–5 years)



Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:



Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements



3. VFM: our procedures and conclusions

We have completed our VFM work and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. The risks we identified are detailed in the table below, along with the further procedures we performed and our conclusions. We identified a significant weakness in the Council's arrangements and so are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Our auditor's report will make reference to this significant weakness in arrangements, as required by the Code, see Appendix H.

Risk of significant weakness	Conclusion	Outcome
In 2021-22, we identified a significant weakness in the Council's governance arrangements in relation to capacity of the procurement function, ensuring compliance with procurement procedure, onboarding of contractors onto the Council network and providing access to information.	We have considered and included references to the Council's actions to address this significant weakness (which have mainly been carried out in 2023/24) in our report. However, because our report looks at arrangements in place in 2022/23 and the significant weaknesses were present in 2022/23.	We have repeated the key recommendations we made in our 2021/22 Report. Our Auditor's Annual Report for 2021/22 was issued in August 2023 and the Council has made significant progress in addressing these significant weaknesses and implementing the recommendations in 2023/24.

4. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention and consider that an objective reasonable and informed third party would take the same view. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix F.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Grant Thornton International Transparency report 2023](#).

4. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified which were charged from the beginning of the financial year to November 2023, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing Benefit Claim 2021-22	27,005	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £27,005 in comparison to the total fee for the audit of £74,660 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat, we consider the safeguards are the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Certification of Housing Benefit Claim 2022-23	32,400	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £32,400 in comparison to the total fee for the audit of £74,660 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat , we consider the safeguards are the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Governance Committee. None of the services provided are subject to contingent fees.

4. Independence and ethics

As part of our assessment of our independence we note the following matters:

Matter	Conclusion
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Council that may reasonably be thought to bear on our integrity, independence and objectivity
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Council or investments held by individuals
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Council as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and the Council
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place for non-audit services provided
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Council, senior management or staff

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 and consider that an objective reasonable and informed third party would take the same view. The firm and each covered person [and network firms] have complied with the Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements

Appendices

- A. Communication of audit matters to those charged with governance
- B. Action plan – Audit of Financial Statements
- C. Follow up of prior year recommendations
- D. Audit Adjustments
- E. Fees and non-audit services
- F. Auditing developments
- G. Management Letter of Representation
- H. Audit opinion
- I. Audit letter in respect of delayed VFM work

A. Communication of audit matters to those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks	•	
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	•	•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

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

This document, the Audit Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Distribution of this Audit Findings report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, we are also required to distribute our findings to those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to all those charged with governance.

B. Action Plan – Audit of Financial Statements

We have identified two recommendation for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress of these recommendations during the course of the 2023/24 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
High	<p>IT control environment</p> <p>Our review of the IT General Controls for the Council’s IT network and key finance applications identified several areas where we observed deficiencies in the processes in place or the expected control is ineffective or missing.</p> <p>This relates to the three areas of security management, management of changes to IT applications and management of schedule jobs and monitoring.</p> <p>We have included a detailed summary of findings in Appendix I.</p> <p>In addition, we note that the Council does not have a formal policy covering cyber risk.</p> <p>Maintaining robust and effective IT controls, supported by appropriate policies, is critical to protect the integrity of IT network and financial applications.</p>	<p>Review the Council’s IT and cyber security policies and procedures to ensure the appropriate IT general controls are implemented effectively.</p> <p>Management response</p> <p>Cyber Security officer recently hired and working on implementing and improving security policies. Information Security Framework and Patching Policy have been completed and further changes planned to improve user creation and deletion.</p>

B. Action Plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
<p>Medium</p>	<p>Management quality review of asset valuations and supporting documentation for key inputs</p> <p>We observed, in some instances, the supporting documentation was not available and/or not up to date or the information provided to the valuer was inaccurate. For example, when reviewing evidence to substantiate rental income, we identified the Council has several properties occupied by tenants with expired leases. We understand that a new property management system has been implemented in 2023-24.</p>	<p>Review the arrangements for managing property information to ensure that appropriate supporting documentation is retained for review, renewed on a timely basis and made available to the external valuers as necessary.</p> <p>Review the quality assurance processes to ensure adequate management review of valuations work is undertaken to check the work produced is in line with the agreed scope of work, incorporates the most up to date information and make sure any key judgements are appropriately documented.</p> <p>Management response The management team agree with the recommendation. Action has already been taken to provide appropriate repositories for all supporting documentation required to undertake asset valuations.</p> <p>The Council has recently procured Civica Property Management, a Property/Asset Management system. The system is in the process of implementation, through this process all property information for each asset is being captured and uploaded onto the cloud-based system. Once live, the system will provide a one central repository for asset information which will be reviewed and renewed when required; information will be easily accessible and made available to external valuers.</p> <p>Following a recent procurement exercise, a new Property Valuer for the 2023/24 accounts has been appointed and a project group convened with nominated representatives across the Finance and Estates teams to work with them to deliver a more efficient and accurate valuation of PPE for 2023/24. The Estates team is now fully resourced and will review the valuation work to ensure that the work is undertaken in line with the scope of work.</p>

C. Follow up of prior year recommendations

We identified the following issues in the audit of South Ribble Borough Council's 2021/22 financial statements, which resulted in three recommendations being reported in our 2021/22 Audit Findings report.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p>Land & building assets held at historical cost</p> <p>We identified several land and building assets on the assets register which are held at historical cost which is not appropriate under the CIPFA Code. Upon review and through inquiries of management, we have established there are some items which are a component of other buildings on the asset register and therefore double-counted.</p> <p>There is a risk that land & building assets are misstated in the asset register through double-counting or the valuation of such items is inaccurate.</p> <p>We recommended the Council should review the accounting treatment for capital expenditure which forms a component of an existing property asset to consider whether componentisation is appropriate and ensure the assets are subject to revaluation in accordance with the CIPFA Code.</p>	<p>We have reviewed the asset revaluations and assets not subject to full revaluation and we have not identified any further issues.</p>
✓	<p>Infrastructure assets</p> <p>From our review of useful lives applied to infrastructure assets, we identified that the basis for determining appropriate useful lives for different types of assets should be reviewed. The accounting policies include a range of 5-60 years for infrastructure assets however, there are additional sub-categories which should be assessed individually e.g. footpaths and bridleways, drainage, parks.</p> <p>There is risk that inappropriate useful lives are applied to assets which could result in a material error in the net book value and accumulated depreciation.</p> <p>We recommended the Council should review the basis for estimating useful lives for infrastructure assets, considering the guidance in the CIPFA Bulletin and ensure the accounting policies are compliant with the requirements of the CIPFA Code.</p>	<p>Management have checked the assets to ensure they were not covered by another valuation or were incorrectly classified, hence the movement of some of the values.</p> <p>Asset lives are based upon assumptions at the time expenditure is incurred but broadly the expenditure generally falls into the category of improvements to land in parks and open spaces including drainage, footpaths etc; management think it is reasonable to assume 10/20 year lives before the works are required again to maintain the same functionality.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

C. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	<p>Cash to bank reconciliation</p> <p>Our review and testing of the year-end reconciliation of cash balances in the accounting ledger to the bank account has identified that the reconciliation only includes the Council's main bank account however, there are other bank accounts which should also be reconciled and reviewed at year-end.</p> <p>As part of our procedures we have reconciled the cash balances to the bank account, obtained direct confirmation from the banks and verified items that cleared in the bank after the reporting date. Therefore, we are satisfied the cash balance is not materially misstated.</p> <p>We raised a similar recommendation in 2020-21 (see page 29) and management have started reviewing the cash to bank reconciliation process to ensure it covers all applicable cash balances in the account, and ensure it is fit for purpose as an effective check on the year-end balance.</p>	<p>We have reviewed the cash to bank reconciliation and identified that there are 3 call accounts not included as part of the reconciliation and we identified an understatement of £0.97m which is included as an unadjusted misstatement.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

D. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2023

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000	Impact on general fund £'000
Pension surplus asset ceiling and recognition of unfunded liability	Remeasure of defined benefit liability/asset 15,043	Unfunded pension liability (2,558) Pension net asset (12,485)	15,043	15,043
Adjustment for difference between estimated and actual employer pension contributions	-	Pension assets (496) Pension liability 496	-	-
Misclassification of revaluation movements between CIES and revaluation reserve and depreciation	Surplus/Deficit on revaluation of PPE (1,065)	Land & buildings 1,065	(1,065)	(1,065)
Overall impact	13,978	(13,978)	13,978	13,978

Impact of adjusted misstatements for group accounts

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000	Impact on general fund £'000
Pension surplus asset ceiling – South Ribble Leisure Ltd	Remeasure of defined benefit liability/asset 248	Pension net asset (248)	248	-
Overall impact	248	(248)	248	

D. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been adjusted in the final set of financial statements.

Disclosure/issue/Omission	Details	Adjusted?
Accounts consistency	Updates made to references in the accounts and minor amendments to ensure consistency.	✓
Group accounts	The group financial statements and supporting notes have been added to the updated Statement of Accounts	✓
Cashflow Statement	The cashflow statement and relevant disclosure notes have been amended to incorporate the adjustments to debtors and creditors.	✓
Pension surplus asset ceiling	The disclosures have been updated to explain the application of the asset ceiling to the net pension asset.	✓
Audit fees	Updates made to disclose the full external audit costs in the accounts.	✓

D. Audit Adjustments (continued)

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2022/23 audit which have not been made within the final set of financial statements. The Governance Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Impact on general fund £'000	Reason for not adjusting
Business rates appeals provision is overstated following the revised calculation	Provision expense 308	Provisions (308)	308	(308)	Not material
Understatement of cash accounts balance	Interest income (97)	Cash and cash equivalents 97	(97)	(97)	Not material
Overall impact	211	(211)	211	(211)	

E. Fees and non-audit services

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

	Proposed audit fee
Scale fee published by PSAA 2022/23	£40,660
<i>Issues not included in the above</i>	
Additional work on Value for Money (VfM) under new NAO Code	£9,000
Increased audit requirements of revised ISAs 540	£2,100
Enhanced audit procedures on journals testing (not included in the Scale Fee)	£3,000
Additional procedures to address other local risk factors (VFM significant weaknesses)	£6,000
Group audit procedures	£4,500
Enhanced audit procedures for Infrastructure	£2,650
Enhanced audit procedures for Payroll – Change of circumstances	£500
Enhanced audit procedures for Collection Fund- reliefs testing	£750
Increased audit requirements of revised ISAs 315/ 240	£3,000
Lower materiality	£2,500
Total proposed audit fees 2022/23 (excluding VAT)	£74,660

E. Fees and non-audit services

Non-audit fees for other services	Proposed fee	Final fee
Certification of Housing Benefit Claim 2022-23	32,400	tbc
Total non-audit fees (excluding VAT)	£32,400	tbc

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The fees reconcile to the financial statements.

- | | |
|---|----------|
| • fees per financial statements | £41,000 |
| • Audit fee variation to PSAA scale fee | £34,000 |
| • Housing Benefit Claim 2022-23 | £32,000 |
| • total fees per above | £107,000 |

None of the above services were provided on a contingent fee basis.

This covers all services provided by us and our network to the group/company, its directors and senior management and its affiliates, and other services provided to other known connected parties that may reasonably be thought to bear on our integrity, objectivity or independence. (The FRC Ethical Standard (ES 1.69))

Agenda Item 5

F. Auditing developments

Revised ISAs

There are changes to the following ISA (UK):

ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement'

This impacts audits of financial statement for periods commencing on or after 15 December 2021.

ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'

ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements'

A summary of the impact of the key changes on various aspects of the audit is included below:

These changes will impact audit for audits of financial statement for periods commencing on or after 15 December 2022.

Area of change	Impact of changes
Risk assessment	The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of: <ul style="list-style-type: none"> the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures the identification and extent of work effort needed for indirect and direct controls in the system of internal control the controls for which design and implementation needs to be assess and how that impacts sampling the considerations for using automated tools and techniques.
Direction, supervision and review of the engagement	Greater responsibilities, audit procedures and actions are assigned directly to the engagement partner, resulting in increased involvement in the performance and review of audit procedures.
Professional scepticism	The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to: <ul style="list-style-type: none"> increased emphasis on the exercise of professional judgement and professional scepticism an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence increased guidance on management and auditor bias additional focus on the authenticity of information used as audit evidence a focus on response to inquiries that appear implausible
Definition of engagement team	The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor. <ul style="list-style-type: none"> Consideration is also being given to the potential impacts on confidentiality and independence.
Fraud	The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to: <ul style="list-style-type: none"> clarification of the requirements relating to understanding fraud risk factors additional communications with management or those charged with governance
Documentation	The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed.

G. Management Letter of Representation

South Ribble Borough Council Financial Statements for the year ended 31 March 2023

This representation letter is provided in connection with the audit of the financial statements of South Ribble Borough Council and its subsidiary undertaking, South Ribble Leisure Ltd, for the year ended 31 March 2023 for the purpose of expressing an opinion as to whether the group and Council financial statements give a true and fair view in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

- i. We have fulfilled our responsibilities for the preparation of the group and Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.
- ii. We have complied with the requirements of all statutory directions affecting the group and Council and these matters have been appropriately reflected and disclosed in the financial statements.
- iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the group and Council financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include valuation of land and buildings, valuation of investment property and the valuation of the net pension surplus. We are satisfied that the material judgements used in the

preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

- vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
- vii. Except as disclosed in the group and Council financial statements:
 - a. there are no unrecorded liabilities, actual or contingent
 - b. none of the assets of the [group and]Council has been assigned, pledged or mortgaged
 - c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
- ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
- x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The group and Council financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

G. Management Letter of Representation

xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report and attached. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.

xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xiv. We have updated our going concern assessment. We continue to believe that the group and Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that :

- a. the nature of the group and Council means that, notwithstanding any intention to cease the group and Council operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements
- b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and
- c. the group and Council's system of internal control has not identified any events or conditions relevant to going concern.

We believe that no further disclosures relating to the group and Council's ability to continue as a going concern need to be made in the financial statements

xv. The group and Council has complied with all aspects of ring-fenced grants that could have a material effect on the group and Council's financial statements in the event of non-compliance.

xvi. We have considered the year end value of land and building assets which have not been subject to external valuation and we are satisfied that the basis of valuation remains appropriate and assets are not materially misstated. We have not identified

any material changes to the properties.

Information Provided

xix. We have provided you with:

- a. access to all information of which we are aware that is relevant to the preparation of the group and Council's financial statements such as records, documentation and other matters;
- b. additional information that you have requested from us for the purpose of your audit; and
- c. access to persons within the Council via remote arrangements, from whom you determined it necessary to obtain audit evidence.

xx. We have communicated to you all deficiencies in internal control of which management is aware.

xxi. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xxii. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

G. Management Letter of Representation

- xxii. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the group and Council, and involves:
- a. management;
 - b. employees who have significant roles in internal control; or
 - c. others where the fraud could have a material effect on the financial statements.
- xxiii. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.
- xxiv. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xxv. We have disclosed to you the identity of the group and Council's related parties and all the related party relationships and transactions of which we are aware.
- xxvi. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

The disclosures within the Narrative Report fairly reflect our understanding of the group and Council's financial and operating performance over the period covered by the financial statements.

Approval

The approval of this letter of representation was minuted by the Council's Governance Committee at its meeting on 28 November 2023

H. Audit opinion

Our audit opinion is included below.

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

Independent auditor's report to the members of South Ribble Borough Council

Report on the audit of the financial statements

Opinion on financial statements

We have audited the financial statements of South Ribble Borough Council (the 'Authority') and its subsidiary (the 'group') for the year ended 31 March 2023, which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Statement, the Group Movement in Reserves Statement, the Group Comprehensive Income and Expenditure Statement, the Group Balance Sheet, the Group Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2023 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report.

We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Director of Finance's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group and the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority or the group to cease to continue as a going concern.

In our evaluation of the Director of Finance's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 that the Authority's and group's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the group and the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2022) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the group and Authority and the group and Authority's disclosures over the going concern period.

In auditing the financial statements, we have concluded that the Director of Finance's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

H. Audit opinion

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's and the group's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Director of Finance with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. The Director of Finance is responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with 'Delivering Good Governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE, or is misleading or inconsistent with the information of which we are aware from our audit.

We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority and the Director of Finance

As explained more fully in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs.

H. Audit opinion

In this authority, that officer is the Director of Finance. The Director of Finance 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 2022/23, for being satisfied that they give a true and fair view, and for such internal control as the Director of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Finance is responsible for assessing the Authority's and the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have been informed by the relevant national body of the intention to dissolve the Authority and the group without the transfer of its services to another public sector entity.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. Irregularities, including fraud, are instances of non-compliance with laws and regulations. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and Authority and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting frameworks (the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015 and the Local Government Act 2003).

We enquired of management and the Governance Committee, concerning the group and Authority's policies and procedures relating to:

- the identification, evaluation and compliance with laws and regulations;
- the detection and response to the risks of fraud; and
- the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

We enquired of management, internal audit and the Governance Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.

We assessed the susceptibility of the Authority and group's financial statements to material misstatement, including how fraud might occur, by evaluating management's incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to:

- journal entries that impacted income and expenditure or posted during the accounts production;
- potential management bias in accounting estimates; and
- transactions outside the normal course of business.

Our audit procedures involved:

- evaluation of the design effectiveness of controls that management has in place to prevent and detect fraud,
- journal entry testing, with a focus on journals which impacted income and expenditure or posted during the accounts production,
- challenging assumptions and judgements made by management in its significant accounting estimates in respect of valuation of land and buildings, the valuation of investment property and defined benefit pensions liability valuations, and
- assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

H. Audit opinion

These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

We communicated relevant laws and regulations and potential fraud risks to all engagement team members, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to the valuation of land and buildings, the valuation of investment property and defined benefit pensions. We remained alert to any indications of non-compliance with laws and regulations, including fraud, throughout the audit.

Our assessment of the appropriateness of the collective competence and capabilities of the group and Authority's engagement team included consideration of the engagement team's:

- understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
- knowledge of the local government sector in which the group and Authority operates
- understanding of the legal and regulatory requirements specific to the Authority and group including:
 - the provisions of the applicable legislation
 - guidance issued by CIPFA/LASAAC and SOLACE
 - the applicable statutory provisions.

In assessing the potential risks of material misstatement, we obtained an understanding of:

- the Authority and group's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.

- the Authority and group's control environment, including the policies and procedures implemented by the Authority and group to ensure compliance with the requirements of the financial reporting framework.

For components at which audit procedures were performed, we considered whether there were instances of non-compliance with laws and regulations that gave rise to a risk of material misstatement of the group financial statements. No such matters were identified.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2023.

We have nothing to report in respect of the above matter except that on 30 January 2024 we identified and reported significant weaknesses in the Authority's arrangements for governance and for improving economy, efficiency and effectiveness. We reported the significant weaknesses in our audit report for the year ended 31 March 2022 issued on 07 September 2024. The significant weaknesses affect the Authority's arrangements for the year ended 31 March 2023.

This was in relation to:

- the onboarding of contractors onto the Council network and providing system access. We recommend that due consideration be given to the extent of access required and risk management in relation to system access, including regular reviews of system access and documentation of that review.

H. Audit opinion

- a failure of the Council's governance framework. We recommend the Council considers what organisational architecture needs to be in place to ensure that the appropriate safeguards, checks and balances operate effectively to provide the assurance that officers acting improperly will be detected by Council systems.
- The lack of capacity of the current procurement function is putting the Council at significant risk of failure to achieve value for money in its procurement and contract management arrangements. We recommend that the Council renews and enhances the procurement strategy, prioritise the appropriate resourcing of its procurement function and appropriately those officers and set out clear responsibilities for procurement staff versus service line leads to ensure the procurement function operates in line with regulations and internal policy.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in January 2023. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

Report on other legal and regulatory requirements – Audit Certificate

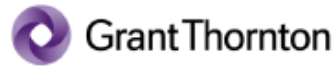
We certify that we have completed the audit of South Ribble Borough Council for the year ended 31 March 2023 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

I. Audit letter in respect of delayed VFM work

Commercial in confidence



Chair of Governance Committee
South Ribble Borough Council
West Paddock
Leyland
PR25 1DH

Grant Thornton UK LLP
Liver Building
Liverpool
L3 1PS

28 September 2023

Dear Councillor Colin Sharples, Chair of Governance Committee

The original expectation under the approach to VFM arrangements work set out in the 2020 Code of Audit Practice was that auditors would follow an annual cycle of work, with more timely reporting on VFM arrangements, including issuing their commentary on VFM arrangements for local government by 30 September each year at the latest. Unfortunately, due to the on-going challenges impacting on the local audit market, including the need to meet regulatory and other professional requirements, we have been unable to complete our work as quickly as would normally be expected. The National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible can be issued in line with national timetables and legislation.

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We expect to publish our report no later than three months after the date of issuing the opinion on the financial statements.

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours faithfully

Georgia Jones
Engagement Lead

J. IT Control Environment

This section provides commentary on the deficiencies in IT control environment identified during the course of the audit which are referenced in the Action Plan in Appendix B and on page XX of the report. The table outlines the areas of the IT general controls where we consider the processes in place are not in line with best practice or the expected control has been observed as ineffective or missing.

IT General Controls category	Illustrative control	Auditor view and management response
Security management (including managing IT access rights and privileged access)	Initial access and changes to access to the applications and supporting infrastructure is documented and approved.	<p>Our review of the processes found that documentation on user access requests and approvals is not retained for more than 30 days after the change is implemented. As a result there is no documentation available for review.</p> <p>Management response</p> <p>Access is provided via Microsoft Entra ID and this has a history of 30 days for sign-in, audit and user activity. To implement further history would require implementing a SEIM system which is being explored.</p>
	Changes to access and/or removal of access is actioned on timely basis.	<p>Our review and checks of a sample of users who had left employment at the Council found that access had not been removed for several months after the leaving date.</p> <p>Management response</p> <p>ICT make changes to users' permissions once made aware of their leaving via the helpdesk. However, a review of the user removal process has been started to improve this and work closely with other departments.</p>
	User and IT personnel access rights are periodically reviewed and approved by management.	<p>We observed that that there is no regular control in place; there are no periodic reviews of user access rights across the Council's IT network. There are periodic reviews of user access within the finance team.</p> <p>Management response</p> <p>ICT has begun a process to review the AD structure and permissions inside the councils but due to the large quantity of users and permissions this is taking considerable time but once completed will allow for the improvement of the user creation and deleting process.</p>

J. IT Control Environment

This section provides commentary on the deficiencies in IT control environment identified during the course of the audit which are referenced in the Action Plan in Appendix B and on page XX of the report. The table outlines the areas of the IT general controls where we consider the processes in place are not in line with best practice or the expected control has been observed as ineffective or missing.

IT General Controls category	Illustrative control	Auditor view and management response
Management of program or IT environment changes	Management is aware of, and performs, an appropriate level of review of the activities performed by users with privileged access.	<p>We observed that that there is no regular control in place; there are no periodic reviews of activities performed by users with privileged access, although audit logs are available to review.</p> <p>Management response</p> <p>Cyber Security Officer reviews alerts in Microsoft Defender that highlight administrator roles provided and receives alerts when new privileged roles are granted. The review of a SEIM system is also tied in to improving this requirement.</p>
	Change requests are properly logged, documented and approved by appropriate personnel	<p>During the period under review, the Council had no formal change management policy in place. There is no formal log of changes to IT applications with records of requests and approval.</p> <p>Management response</p> <p>Change Management is to become part of the new Helpdesk system which is still awaiting implementation. Once this is in place then Change Management and Change Approval will be better managed and controlled.</p>
Information processing (including job scheduling and monitoring)	Changes to the financially significant scheduled jobs and associated execution schedules are properly logged, documented, tested and approved.	<p>During the period under review, the Council had no formal change management policy in place. There is no formal log of changes to financially significant scheduled jobs with records of requests and approval.</p> <p>Management response</p> <p>Change Management is to become part of the new Helpdesk system which is still awaiting implementation. Once this is in place then Change Management and Change Approval will be better managed and controlled.</p>

Agenda Item 6



Report of	Meeting	Date
Director of Finance and Section 151 Officer	Governance Committee	Tuesday, 6th February 2024

Statement of Accounts 2022/23

Is this report confidential?	No
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Is this decision key?	No
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Savings or expenditure amounting to greater than £100,000	Significant impact on 2 or more council wards
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Purpose of the Report

1. Further to the approval of the Draft Statement of Accounts for 2022/23 at the Governance Committee meeting on 28th November 2023, the purpose of the report is to update Committee Members on the adjustments made to the accounts since that date, following completion of the external audit by Grant Thornton.

Recommendations

2. Further to the approval of the Draft 2022/23 Statement of Accounts at the Governance Committee on 28th November 2023, the Committee is asked to approve the statements which have been amended during the completion of the external audit to include the adjustments detailed in point 12 below.

Reasons for recommendations

3. At the November Governance Committee meeting, the Committee approved the 2022/23 Statement of Accounts, subject to any amendments which, in the opinion of the Director of Finance (Section 151 Officer), were minor in nature.
4. Delegated authority was given to the Director of Finance, in consultation with the Chair of Governance Committee, to make such minor amendments, however if in the opinion of the Director of Finance any such amendments were found to be material to the financial position of the council, then Governance Committee would be asked to approve the updated Statement of Accounts.

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Other options considered and rejected

5. The Statement of Accounts are prepared in the form to meet professional accounting standards and to comply with statutory regulations. There are therefore no alternative options that can be adopted. The report complies with the recommendations approved by Governance Committee in November 2023.

Corporate priorities

6. The report relates to the following corporate priorities:

An exemplary council	Thriving communities
A fair local economy that works for everyone	Good homes, green spaces, healthy places

Background to the report

7. Once the external audit has been completed, the Regulations specify that the responsible Financial Officer must reconfirm on behalf of the authority that they are satisfied that the Statement of Accounts present a true and fair view of the financial position of the authority at the year end, and the income and expenditure for the year.
8. The council is then required to:
 - consider, either by way of a Committee, or by the Members meeting as a whole, the Statement of Accounts;
 - approve the Statement of Accounts by a resolution of that Committee or meeting.
9. South Ribble Borough Council delegates the responsibility for the approval of the accounts to the Governance Committee.
10. The Governance Committee approved the Draft 2022/23 Statement of Accounts at their meeting on 28th November 2023, subject to any amendments identified in the completion of the external audit which, if in the opinion of the Director of Finance were material to the financial position of the Council, the Governance Committee would be asked to approve the updated Statement of Accounts at a future meeting.
11. As noted in Grant Thornton's Audit Findings Report on the agenda, they have now completed their audit work. In doing so, since 28th November they have identified 4 adjustments required to the accounts which they have discussed with the Director of Finance and her team; these amendments have been agreed and the 2022/23 Statement of Accounts updated accordingly.
12. The full list of adjustments identified by Grant Thornton to the Draft Statement of Accounts published on 14th August 2023 are set out below; this can also be found in Appendix D of the Audit Findings Report.

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Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2023

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000	Impact on general fund £'000
Pension surplus asset ceiling and recognition of unfunded liability	Remeasure of defined benefit liability/asset 15,043	Unfunded pension liability (2,558) Pension net asset (12,485)	15,043	15,043
Adjustment for difference between estimated and actual employer pension contributions	-	Pension assets (496) Pension liability 496	-	-
Misclassification of revaluation movements between CIES and revaluation reserve and depreciation	Surplus/Deficit on revaluation of PPE (1,065)	Land & buildings 1,065	(1,065)	(1,065)
Overall impact	13,978	(13,978)	13,978	13,978

Impact of adjusted misstatements for group accounts

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000	Impact on general fund £'000
Pension surplus asset ceiling – South Ribble Leisure Ltd	Remeasure of defined benefit liability/asset 248	Pension net asset (248)	248	-
Overall impact	248	(248)	248	

13. In relation to each of the points above;

- The first two adjustments to the council's accounts and the one adjustment to the group accounts relate to accounting for the pension for both South Ribble Council and its wholly owned subsidiary, South Ribble Leisure Ltd. Accounting for pensions was unusual in 2022/23 due to there being a net surplus on the respective fund; this position was not unique to South Ribble. The fund actuaries were requested to provide an IFRIC 14 assessment which considered the limit to be placed on this defined benefit asset. This was the approach taken by many local authorities across the country who found themselves in the same position. At the time of preparing the accounts it was uncertain how this surplus should be treated. Following the IFRIC 14 Assessment in November 2023, and on advice from the technical team at Grant Thornton, adjustments were identified and actioned in line with the advice received.
- The third adjustment to the council's accounts relates to Property, Plant and Equipment (PPE) and the incorrect use of the revaluation reserve, rather than the Comprehensive Income and Expenditure Statement (CIES) following an adjustment to the council's asset register. This has been reviewed and additional checks and balances put in place to ensure correct accounting for 2023/24 and beyond.

14. Misclassification and disclosure changes have been made to the accounts as outlined in page 34 of Grant Thornton's Audit Findings Report.

15. 2 adjustments identified by the auditors that have not been actioned as they are not material to the accounts are detailed on page 35 of the Audit Findings Report:

Agenda Item 6

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2022/23 audit which have not been made within the final set of financial statements. The Governance Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Impact on general fund £'000	Reason for not adjusting
Business rates appeals provision is overstated following the revised calculation	Provision expense (308)	Provisions 308	(308)	308	Not material
Understatement of cash accounts balance	Interest income (97)	Cash and cash equivalents 97	-	-	Not material
Overall impact	(405)	405	(308)	308	

16. Having considered the position, the council have decided not to adjust for these items as they are not material to the overall position of the accounts. The Provision for Business Rates appeals is reviewed annually and the provision for 2023/24 will be calculated using the methodology that resulted in the revised figure above. The interest income referred to above will be included within the 2023/24 accounts, and new approaches to treasury management and reconciliations that have now been introduced will ensure that such an understatement is not an issue for 23/24. This unadjusted misstatement is referred to in the Letter of Representation to be signed by the Chair of the Governance Committee and the Director of Finance
17. The Annual Governance Statement is unchanged from that approved by the Committee on 23 May 2023

Climate change and air quality

18. The work noted in this report does not impact the climate change and sustainability targets of the Councils Green Agenda and all environmental considerations are in place.

Equality and diversity

19. This report has no implications in respect of equality and diversity.

Risk

20. The accounts must be compliant with the relevant standards and must be prepared on a true and fair view basis. Failure to comply could result in a failure to meet the statutory duty.

Comments of the Statutory Finance Officer

21. The report meets the statutory accounting requirements for the Statement of Accounts to be produced, which must present a factual statement of the income and expenditure flows over the course of the 2022/23 financial year, and a snapshot of the Balance Sheet position as at 31st March 2023.
22. All financial implications relating to the final budget outturn position have been set out in the Revenue and Capital Outturn Reports 2022/23, and which were considered by Cabinet on 21st June 2023.

Agenda Item 6

Comments of the Monitoring Officer

23. The legal implications are in respect of the Accounts and Audit Regulations 2015 (as amended) 2022, and the requirement that the Accounts must be compliant with the relevant Accounting Standards and Codes of Practice and must be prepared on a true and fair view basis. Failure to comply could result in a failure to meet the statutory duty.

Background documents

- Accounts and Audit (England) Regulations 2015 (as amended) 2022
- CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2022/23.

Report Author:	Email:	Telephone:	Date:
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