

# Governance Committee

Wednesday, 29th September, 2021, 6.00 pm

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

## Agenda

**1 Apologies for absence**

**2 Declarations of Interest**

Members are requested to indicate at this stage in the proceedings any items on the agenda in which they intend to declare an interest. Members are reminded that if the interest is a Disclosable Pecuniary Interest (as defined in the Members' Code of Conduct) they must leave the room for the whole of that item. If the interest is not a Disclosable Pecuniary Interest, but is such that a member of the public could reasonably regard it as being so significant that it is likely that it would prejudice their judgment of the public interest (as explained in the Code of Conduct) then they may make representations, but then must leave the meeting for the remainder of the item.

**3 Minutes of meeting Tuesday, 27 July 2021 of Governance Committee**

(Pages 3 - 6)

Minutes of the last meeting held on Tuesday 27 July 2021, are attached to be agreed as a correct record for signing by the Chair.

**4 Internal Audit Interim Report as at 31st August 2021**

(Pages 7 - 44)

Report of the Director of Governance and Monitoring Officer is attached.

**5 Audit Findings Report 2020/21**

(Pages 45 - 84)

The report of the Council's External Auditors is attached.

**6 Audited Statement Of Accounts 2020/21**

(To Follow)

Report of the Director of Finance will be to follow.

Gary Hall  
Chief Executive

Electronic agendas sent to Members of the Governance Committee Councillors Ian Watkinson (Chair), Colin Sharples (Vice-Chair), Damian Bretherton, Margaret Smith, Alan Ogilvie, Angela Turner and Kath Unsworth

The minutes of this meeting will be available on the internet at [www.southribble.gov.uk](http://www.southribble.gov.uk)

Forthcoming Meetings

6.00 pm Tuesday, 30 November 2021 - Wheel Room, Civic Centre, West Paddock,  
Leyland PR25 1DH

**Minutes of Governance Committee**

**Meeting date** Tuesday, 27 July 2021

**Members present:** Councillors Damian Bretherton, Alan Ogilvie, Colin Sharples (Vice-Chair), Margaret Smith and Angela Turner

**Officers:** Louise Mattinson (Director of Finance and Section 151 Officer), Chris Moister (Director of Governance), Darren Cranshaw (Shared Services Lead - Democratic, Scrutiny & Electoral Services), Tony Furber (Principal Financial Accountant), Hanne Birchall (Senior Financial Accountant) and Coral Astbury (Democratic and Member Services Officer)

**Other members and officers:** Councillor Paul Foster (Leader of the Council, Cabinet Member (Strategy and Reform) and Leader of the Labour Group), Councillor Keith Martin, Councillor Phil Smith (Deputy Leader of the Opposition and Deputy Leader of the Conservative Group), Councillor Michael Titherington (Deputy Leader of the Council, Cabinet Member (Health and Wellbeing) and Deputy Leader of the Labour Group), Councillor Kath Unsworth and Councillor Karen Walton (Leader of the Opposition and Leader of the Conservative Group)

**Public:** 0

**11 Apologies for absence**

Apologies were received from Councillors Ian Watkinson and Christine Melia.

**12 Declarations of Interest**

There were no declarations of interest.

**13 Minutes of meeting Tuesday, 25 May 2021 of Governance Committee**

In response to a member enquiry, it was confirmed that any action to be completed outside of the meeting would be circulated to all members of the Committee.

RESOLVED: (Unanimously)

Subject to the amendment of the minutes to include Councillor Phil Smith as an observer, the minutes were agreed as a correct record for signing by the Chair.

**14 South Ribble Borough Council Audit Plan**

The Council's External Auditors presented a report which sought to give an overview of the planned scope and timing of the statutory audit of South Ribble Borough Council.

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It was reported that three areas had been identified as a significant risk; management override of controls, valuation of land and buildings and valuation of net pension fund liability. As a consequence of issues identified in the previous year's audit, significantly more risk assessment work would be undertaken with regards to compliance controls particularly around payments to suppliers.

Members were advised that two areas of significant weakness had been identified, although this was largely driven by issues identified in previous years. The Auditors would be examining the progress made by the Council in addressing these issues and following recommendations which had been made in the prior year. It was confirmed that the draft statement of accounts had been received in early July and the audit was now underway.

Members commented on the revised approach to defining value for money and sought clarification on how the opinions would be defined. In response, the External Auditor explained that the form of opinion was unchanged, it was the judgement around qualified and unqualified which had been amended. There was now more scope to consider the balance of risks, providing a broader background for the Auditor's to work too. Several definitions would be issued but will not be defined as qualified or unqualified, instead these will be supported by a more detailed report.

RESOLVED: (Unanimously)

That the report be noted.

## **15 Management Responses to the External Auditors Planning Inquiries 2020-21**

The Committee received a report which sought to provide details of the management responses to the External Auditor Planning Inquiries. The Director of Finance explained that the questions and responses covered a variety of areas which would have significant impact on the financial statement for 2020/21.

Members commended Officers for their hard work in awarding £27 million of grant funding and expressed appreciation that only £10,000 had been identified as potentially fraudulent.

Clarification from members was sought on the status of the £10,000 potentially fraudulent grant. In response, the Director of Finance explained that when the COVID19 pandemic began central government had significantly pushed local authorities to pay the grant money to businesses which had been affected. Limited checks had taken place, with more detailed guidance subsequently becoming available. A further update on the status of the fraudulent payment would be provided to member's outside of the meeting.

Members requested a copy of the mandatory fraud awareness training which was due to be rolled out to Officers.

RESOLVED: (Unanimously)

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1. The committee approve the management responses to the External Auditor's inquiries.
2. More information on the status of the £10,000 potentially fraudulent grant payment would be provided to members outside of the meeting.
3. A copy of the mandatory fraud awareness training for Officers to be provided to members.

## **16 Treasury Management Annual Report 2020/21 and June Quarter Monitoring 2021/22**

The committee considered a report that sought to present the outturn for Treasury Management activity in the financial year 2020/21 and monitoring information in respect of the first quarter of 2021/22.

The Principal Financial Accountant reported that overall, the council had more cash than usual throughout the year with an average daily balance of £50 million, due to the advance funding provided by government for the Covid response (primarily in respect of the Business Grants then paid over to businesses). However, due to low interest rates, the need to keep money available for use at short notice to respond to Covid and pay over the business grants, combined with the fact that other authorities were holding higher than average cash balances and so there was limited long term lending opportunities, the interest earned was just over £177,000.. The average daily balance was above £53 million.

Members sought clarification on the List of Investments as at 31 March 2021 (Appendix A). In response, it was provided that on the notice accounts some investments were listed as 6 months for some time. At the time, interest rates were competitive with what could be gained from fixed term investments. One investment was running at immediate notice, the other was tied in for some time. Six months' notice was equivalent to fixed term loans being made to other councils.

RESOLVED: (Unanimously)

That the report be noted.

## **17 Statement of Accounts for the Financial Year 2020/21**

The Director of Finance presented a report which provided members with the Draft Statement of Accounts for 2020/21 and advised members in respect of the statutory requirements for signature, audit, inspection and publication of the statement.

Members were advised the audit was now underway and would be brought back and presented for approval upon completion. The deadline for completion of the draft, unaudited, Statement of Accounts was 31 July, however the accounts had been produced earlier by the Finance team which had enabled the External Auditors to begin the audit at the beginning of July.

The Director of Finance explained that the statement supports and demonstrates the Council's accountability to its stakeholders. The statement provides both a narrative and financial overview of the activities undertaken over the course of 2020/21. As

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the accounts are produced on an accruals basis, all goods and services that have been physically received as of 31 March 2021 have been accounted for.

In response to a member enquiry, the Principal Financial Accountant confirmed that in respect of the Cashflow Statement, the £10 million inflow and outflow was due to the £10 million pounds of temporary borrowing taken in March 2020 which was subsequently repaid in the new financial year.

RESOLVED: (Unanimously)

1. That the report be noted.
2. Members would be provided with more information outside of the meeting in relation to the interest which had been paid by the authority.

Chair

Date

# Agenda Item 4

| Report to            | On   |
|----------------------|--|
| Governance Committee | Tuesday 28 <sup>th</sup><br>September 2021 |



| Title  | Report of   |
|--|---|
| Internal Audit Interim Report as at 31st August 2021 | Director of<br>Governance and<br>Monitoring Officer |

|                              |    |
|------------------------------|----|
| Is this report confidential? | No |
|------------------------------|----|

## Purpose of the Report

1. The purpose of this report is to advise members of the work undertaken in respect of the Internal Audit Plan from April 2021 to August 2021 and to give an appraisal of the Internal Audit Service's performance to date.

## Recommendations

2. Members are asked to note the position with regard to the Internal Audit Plan.

## Corporate outcomes

3. The report relates to the following corporate priorities: *(tick all those applicable)*:

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

## Background to the report

4. The Internal Audit Plan for 2021/22 was approved by this Committee at its meeting in April 2021 and provides for 499 days of audit work.
5. This is the first interim report for 2021/22 and covers the period between 1<sup>st</sup> April and 30<sup>th</sup> August 2021.

## Internal Audit Reports

6. **Appendix A** provides a snapshot of the overall progress made in relation to the 2021/22 Internal Audit Plan, indicating which audits have been completed and their assurance rating, those that are in progress and those that have yet to start. Appendix A also shows the time planned and actually spent on individual audits.

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7. The following work has been completed between April and August 2021:

**Annual Governance Statement:** Proactive input was provided in collating information to inform the AGS Action Plan.

**COVID Post Payment Assurance:**

Internal Audit provided documentation to the Department for Business, Energy and Industrial Strategy (BEIS) to evidence assurance checks undertaken in relation to 15 cases. This included a sample of grants paid from each of the following schemes: Covid-19 Small Business Grant, Retail, Hospitality and Leisure Grant and Local Authority Discretionary Grant Funds.

Internal Audit have also reviewed all the 26 matches identified by the National Fraud Initiative (NFI) in relation to the payment of the above grants. There are queries arising which are currently being investigated with a view to deciding if any further action is necessary.

**COVID Pre Payment Assurance;**

Internal Audit have reviewed new and existing procedures to provide assurance that processes are robust, meet Government requirements and measures are in place to ensure fraudulent activity is minimised for the Restart Grant, Test & Trace and the Additional Restriction Grant (Scheme 3).

**Health and Well-being Campus – Limited Assurance;**

All documentation from the initial Internal Audit review carried out in 19/20 has been examined and the report re-drafted. The final report is appended to this report.

**Neighbourhoods Record Management – Limited Assurance**

Neighbourhood Services maintain a core database for their Grounds Maintenance and Streetscene Services which encompasses records for inspections and maintenance schedules for play equipment and parks; environmental enforcement; street cleansing; the installation and maintenance of street furniture and signage; work scheduling and ad hoc jobs. The purpose of this review was to provide assurance or otherwise that the information held within the database is well maintained, up to date and supported with accurate records to aid with efficiencies and improve customer satisfaction with the Council's outdoor spaces.

The review identified a number of key control issues and is attached to this report – see **Appendix C**

**Performance Management - Adequate Assurance**

The Council is committed to delivering high quality and value for money services for its residents. The achievement of this is measured and reported through its performance management framework. It is essential that reported performance information is accurately presented as it is used to aid decision making and is published. This review considered the progress made since the development of the Performance Management Framework and verification of the reported figures for Q3 20/21 and Q1 21/22.

Our work has established that significant progress has been made to embed the Corporate Performance Framework over the last 12 months, key aspects include:



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- A suite of corporate performance measures, supported by robust written procedures, have been agreed.
- Business Plans have been prepared and published for 2021/22 outlining service delivery, projects, performance indicators and possible risks. Risks are also being recorded within risk management system GRACE.
- Quarterly oversight of performance by Cabinet/Scrutiny Budget and Performance Panel/Corporate Strategy Programme Board/Leadership Team.
- Data Quality Guide has been developed; this is part of the overall Performance Framework. Data quality training has been provided to Collection Officers and Responsible Officers. Mandatory data quality training is to be provided shortly to all employees through the e-learning portal.
- A new Written Procedures template has been developed, which should help ensure a consistent approach to data quality is achieved. The Policy and Partnerships Team have worked with directorates to ensure the new templates are populated for all indicators. This has included undertaking walk-through reviews with the Responsible Officers to confirm that the data quality system is robust and roles/responsibilities are clearly understood.
- Introduction of an interim performance management system, to provide assurance over data quality. The Policy and Partnerships Team have worked with ICT to develop a new Performance Management System that will be utilised by both South Ribble and Chorley Councils; this will be launched in September 2021.
- Specific officers from the Policy and Partnerships Team have been allocated as main point of contact to provide support/advice to directorates.

Internal Audit undertook an initial review of Q3 (20/21) corporate strategy performance measures and identified that whilst progress has been made by directorates, key issues were found that demonstrated a need for greater oversight of the data collection system by the responsible officers, in conjunction with the authorising officers. Subsequent Internal Audit testing on the performance measures for Q1 (21/22) found that improvements had been made, however despite the amount of training delivered and support provided to collection and responsible officers since the launch of the Performance Management Framework, a small number of indicators were still incorrect.

## **Compliance with Contract Procedure Rules – Adequate Assurance**

This audit review was to provide assurance over compliance with the current Contract Procedure Rules (CPRs) to ensure contracts are procured in a fair and transparent manner and achieve value for money. The review included a sample of contracts across 4 procuring directorates from the last 18 months and comprised a mix of high, intermediate and low value contracts.

We were able to establish that there was a high level of compliance with the Councils CPRs and evidence was available to support that the essential processes within the procurement cycle had been followed.

There were 2 identified areas for improvement.

- The 2015 Public Contracts Regulations require that a Contract Award Notice be published on Contracts Finder for all contracts over £25k. Our work identified that this was not happening in all instances and related to contracts where a waiver had been applied. The Procuring Officers had not informed Procurement Services that the contract had been awarded, preventing the Contract Award Notice from being

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published. Following this review, Procurement Services have since published the required Contract Award Notices.

- We were unable to locate a small number of signed contracts within our sample. The lack of a signed contract leaves the Council in a difficult position if a dispute was to arise.

In addition to improve contract management and procurement planning, a Contract Management System (CMS) has been developed to provide a central repository for all signed contracts and to capture procurement process and performance review information, however this is not being systematically used.

8. For all the reviews completed to date, management have accepted all the findings and the agreed actions in these reports will be followed up and reported on at future meetings of this committee.
9. At the Governance Committee meeting in June 2020, a number of Internal Audit reports were presented in draft format. All of these reports have now been reviewed and either superseded by a more recent review or in the case of the Health and Wellbeing Campus review, included in this report. There was one other additional review carried out by Lancashire County Council Internal Audit Service - Assessment of matters relating to the Wesley Street Mill and McKenzie Arms sites in Bamber Bridge. This report which has not been previously presented to the Committee is now attached at **Appendix D**.

## Control Rating Key

|                    |  |
|--------------------|--|
| <b>Full</b>        | the Authority can place complete reliance on the controls. No control weaknesses exist.                |
| <b>Substantial</b> | the Authority can place sufficient reliance on the controls. Only minor control weaknesses exist.      |
| <b>Adequate</b>    | the Authority can place only partial reliance on the controls. Some control issues need to be resolved |
| <b>Limited</b>     | the Authority cannot place sufficient reliance on the controls. Substantive control weaknesses exist   |

## Internal Audit Performance

10. **Appendix E** provides information on Internal Audit performance as at 27<sup>th</sup> August 2021. All indicators with the exception of the satisfaction rating percentage (assignment level) are below target for the following reasons:

- Percentage of planned time used and percentage of audit plan completed. Both of these indicators are slightly below target as the recruitment exercise for the two additional posts took longer than anticipated. However, the Internal Audit team is now fully resourced.
- Percentage of agreed actions implemented by management. Whilst the percentages are low, the actual numbers the percentages are derived from are small. Furthermore, members will recall that a systematic monitoring system was not in place to ensure the timely implementation of agreed management actions resulting in a significant backlog of actions. This system has now been introduced with each Director receiving a detailed monthly report of all outstanding Internal Audit actions within their Directorate.

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## Internal Audit Developments

11. The following are some of the other developments impacting upon Internal Audit.

### ISO 9001:2015

I informed members at the meeting in March, that Internal Audit would be seeking the re-accreditation of the ISO 9001 certification for its Quality Assurance System. Following a significant amount of work to review and update our working practices, the first surveillance visit was held recently which confirmed that the Service is on track to achieve the re-accreditation in December 2021. This clearly demonstrates that the Audit Team is seeking improved and more efficient working practices to maintain a high quality service.

### QUALITY ASSURANCE & IMPROVEMENT PROGRAMME (PEER REVIEW)

The Accounts and Audit Regulations 2015 require the Council to “undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes taking into account Public Sector Internal Audit Standards (PSIAS) or guidance”.

Members will recall that the Internal Audit Service has to provide confirmation to the Governance Committee on an annual basis that the requirements of the Public Sector Internal Audit Standards (PSIAS) are being complied with. This is usually achieved via the completion of an annual self-assessment but in addition the Council needs to arrange an independent external assessment at least once every 5 years. In Lancashire this is delivered via a programme of reciprocal peer reviews under the auspices of the Lancashire District Councils Audit Group.

We have recently completed the review of the Internal Audit Service of Blackburn with Darwen Council in conjunction with Burnley Borough Council. The reciprocal arrangement means that the review of Burnley Borough Council and the verification of our own self-assessment will take place during 22/23.

**There are no background papers to this report**

### Appendices

Appendix A - Internal Audit Plan 2021/22  
Appendix B - Health and Well-being Campus Final Report  
Appendix C - Neighbourhoods Record Management Final Report  
Appendix D - Assessment of matters relating to the Wesley Street Mill and McKenzie Arms sites in Bamber Bridge.  
Appendix E – Internal Audit Performance Indicators as at 27<sup>th</sup> August 2021.

Dawn Highton

Service Lead Audit and Risk

| Report Author:                                 | Email:                          | Telephone:   | Date:   |
|--|---------------------------------|--------------|---------|
| Dawn Highton Shared Service Lead- Audit & Risk | dawn.highton@southribble.gov.uk | 01772 625625 | 16/9/21 |

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| Appendix A   |     |            |              |                     |
|--|-----|------------|--------------|---------------------|
| Internal Audit Plan 2021/22                                      | QTR | Planed     | Actual       | Comments            |
| <b>CORPORATE AREAS</b>   |     |            |              |                     |
| Annual Governance Statement                                      | 1   | 20         | 14.5         | complete            |
| Anti-Fraud & Corruption  | ALL | 5          | 0.8          | on-going            |
| NFI  | ALL | 5          | 7.7          | on-going            |
| COVID support work   | ALL | 52         | 23.1         | on-going            |
| Programme Board  | ALL | 5          | 0.3          | on-going            |
| Health and Wellbeing Campus                                      | 1   | 5          | 15.5         | Complete / Limited  |
| <b>CUSTOMER &amp; DIGITAL</b>                                    |     |            |              |                     |
| <b>Customer Services</b>   |     |            |              |                     |
| Council Tax  | 2   | 15         | 0            | To commence Q2      |
| Business Rates   | 2   | 15         | 0            | To commence Q2      |
| Sundry Debtors   | 2   | 15         | 1.3          | In progress         |
| Project support  | 2   | 5          | 0.4          | on-going            |
| <b>ICT</b>   |     |            |              |                     |
| Review 1   | 3   | 15         | 0            | To commence Q3      |
| Review 2   | 4   | 10         | 0            | To commence Q4      |
| <b>Streetscene / Neighbourhoods</b>                              |     |            |              |                     |
| Neighbourhoods record management                                 | 1   | 15         | 15.8         | Complete / Limited  |
| Plant inventories / contract management                          | 3   | 15         | 0            | To commence Q3      |
| <b>PLANNING &amp; DEVELOPMENT</b>                                |     |            |              |                     |
| <b>Planning / Development Control</b>                            |     |            |              |                     |
| Section 106 agreements   | 4   | 15         | 0            | To commence Q4      |
| Community Infrastructure Levy                                    | 4   | 15         | 0            | To commence Q4      |
| <b>COMMERCIAL &amp; PROPERTY</b>                                 |     |            |              |                     |
| <b>Commercial &amp; Assets</b>                                   |     |            |              |                     |
| Commercial and Assets  | 4   | 10         | 0            | To commence Q4      |
| Leisure Centres  | 2   | 15         | 2.5          | In progress         |
| Facilities and Building Management                               | 1   | 15         | 17.2         | Draft report stage  |
| Project support  | ALL | 10         | 0.4          | on-going            |
| <b>COMMUNITIES</b>   |     |            |              |                     |
| Safeguarding (incl Prevent arrangements)                         | 4   | 10         | 0            | To commence Q4      |
| Integrated Home Improvement Service / Disabled Facilities Grants | 2   | 15         | 1            | In progress         |
| <b>TRANSFORMATION &amp; PARTNERSHIPS</b>                         |     |            |              |                     |
| Performance Management / Data quality                            | 1/3 | 15         | 20.5         | Complete / Adequate |
| Recruitment and Selection  | 4   | 10         | 0            | To commence Q4      |
| Payroll  | 3   | 10         | 0            | To commence Q3      |
| <b>GOVERNANCE</b>  |     |            |              |                     |
| General Data Protection Regulations                              | 4   | 15         | 0.4          | To commence Q4      |
| Health and Safety  | 3   | 15         | 0            | To commence Q3      |
| Risk Management  | 3   | 10         | 0            | To commence Q3      |
| Compliance with contract procedure rules                         | 1   | 10         | 13.9         | Complete / Adequate |
| <b>FINANCE</b>   |     |            |              |                     |
| Budget Monitoring and reporting                                  | 3   | 15         | 0            | To commence Q3      |
| Journals / Bank reconciliations                                  | 3   | 10         | 0            | To commence Q3      |
| Creditors  | 2/3 | 15         | 0            | To commence Q3      |
| Treasury Management  | 1/2 | 10         | 7.4          | in progress         |
| Income collection  | 1   | 15         | 7.8          | in progress         |
| <b>GENERAL AREAS</b>   |     |            |              |                     |
| Post Audit Reviews   | ALL | 5          | 3.3          | on-going            |
| Contingency / Irregularities                                     | ALL | 5          | 1.8          | on-going            |
| PSIAS - PEER REVIEW  | ALL | 5          | 3.3          | Complete            |
| Residual Work from 20.21   | 1   | 5          | 8.5          | Complete            |
| Internal Audit Effectiveness review                              | 4   | 2          | 0            | Quarter 4           |
| GRACE (Administrator role)                                       | ALL | 5          | 3.4          | on-going            |
| Committee Reporting / Effectiveness Review                       | All | 20         | 1.7          | on-going            |
| <b>TOTALS</b>  |     | <b>499</b> | <b>172.5</b> |                     |

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## Final Internal Audit Report

# Health & Wellbeing Leisure Campus 2019/2020

Audit Assurance: Limited  
Auditor: Jacqui Murray  
Date Issued: 28<sup>th</sup> July 2021

| <b>Reason for the Audit &amp; Scope</b> |   |
|---|---|
| 1                                       | <p>A borough wide Health &amp; Wellbeing Leisure Campus was proposed in July 2017, the proposal was formally endorsed by Cabinet and a capital budget of £15m was agreed and approved for the project in February 2018.</p> <p>Due to significance of the project to the achievement of the Council's Corporate Plan the Internal Audit Service undertook a review to provide assurance or otherwise in the following areas:</p> <ul style="list-style-type: none"> <li>• Establish procurement process and the appointment of Faithful and Gould complies with Contract Procedure Rules;</li> <li>• Determine if effective governance arrangements were in place in respect of the project; and</li> <li>• Ensure procedures in respect of key decisions have been adhered to.</li> </ul> <p>The draft outcomes of an initial review were provided to the Governance Committee on 16<sup>th</sup> June 2020; however, the review was not finalised at this time. Internal Audit have been requested to revisit the audit to provide concluding outcomes.</p> <p>The review and assessment of the Health &amp; Wellbeing Leisure Campus draft report is included in the 2021/22 Annual Audit Plan approved by the Governance Committee on 23<sup>rd</sup> March 2021.</p> |
| 2                                       | <p>The report is based on an assessment of the electronic and paper files compiled during the initial review of the Health &amp; Wellbeing Leisure Campus in 2019/2020 in support of the draft report presented to Governance Committee on 16<sup>th</sup> June 2020.</p> <p>No additional information has been sought or included for review, and no officers or members have been contacted.</p> <p>The audit review and report will concentrate solely on the key areas identified within the original audit review scope and will provide an assessment of whether suitable processes and procedures in line with Council guidance and policy were in place to support the project.</p>   |

| <b>Audit Objectives</b> |  |
|-------------------------|--|
| 3                       | <p>The overall objective of the audit was to provide an opinion of the adequacy, application and reliability of the key internal controls put in place by management to ensure that the identified risks are being sufficiently managed.</p> |

| <b>Audit Assurance</b> |  |
|------------------------|--|
| 4                      | <p>The Head of Internal Audit is required to provide the Governance Committee with an annual audit opinion on the effectiveness of the overall control environment operating within the Council and to facilitate this each individual audit is awarded a controls assurance rating. This is based upon the work undertaken during the review and considers the reliance we can place on the other sources of assurance.</p>   |
| 5                      | <p>Our work identified that there were areas relating to procurement and project governance that fell short of the required standards outlined in the Councils Contract Procedure Rules and the projects approved governance arrangements therefore a Limited assurance rating has been awarded for this review.</p> <p>It is evident that the Council gave consideration to the procurement and governance arrangements that would be required for the successful implementation of the Health &amp; Wellbeing Campus and sought approval for these arrangements from Cabinet to expedite the project; however, in a short period of time the controls put in place for effective and transparent decision making diminished.</p> |

In accordance with the Public Sector Internal Audit Standards, internal audit has been the subject of an independent external assessment, which concluded that the 'internal audit activity conforms to the Standards'



|   |  |
|---|--|
|   | <p>A failure to record robust project documentation was evident in the procurement process and the subsequent appointment of Faithful &amp; Gould Ltd, with our work identifying a breach of the Council's Contract Procedures rules due to a lack of an effective audit trail of evaluation/decision making stages undertaken.</p> <p>The Campus Programme Board was a key part of the governance framework put in place for the project, but the failure to document discussions, decisions and recommendations for Cabinet; and the ultimate cessation of the Programme Board at an early point in the project coupled with a lack of subsequent reporting to Cabinet was a significant governance failure. These deviations from the approved governance controls meant that Members were not formally informed of significant increases in projected costs associated with the project; and were not given the opportunity to make effective key decisions in this regard at a crucial point in the project.</p> <p>Senior officers of the Council were aware of emerging costs that would result in the project exceeding the amount approved within the Council's capital programme and failed to meet the requirements of the Financial Regulations in relation to identifying variations, reporting capital expenditure and ensuring that expenditure continued to deliver best value for money for the Council. Furthermore, the ongoing disregard by senior officers to refer all decisions over £100,000 to Cabinet allowed the continued commissioning of work in the Council's regard by Faithful &amp; Gould Ltd with final costs amounting to £600,000.</p> <p>These substantive control weaknesses, compounded by the further governance failures identified in this report negatively impacted on the Council's ability to successfully deliver the required outcomes of the Leisure, Health &amp; Wellbeing Campus Project.</p> <p>Due to weaknesses outlined above and the lack of documentation available to support project decisions, a <b>Limited</b> assurance rating has been awarded for this review.</p> <p><b>Control Rating Key</b><br/> <b>Full</b> – the Authority can place complete reliance on the controls. No control weaknesses exist.<br/> <b>Substantial</b> - the Authority can place sufficient reliance on the controls. Only minor control weaknesses exist.<br/> <b>Adequate</b> - the Authority can place only partial reliance on the controls. Some control issues need to be resolved.<br/> <b>Limited</b> - the Authority cannot place sufficient reliance on the controls. Substantive control weaknesses exist</p> |
|   | <b>Background</b>  |
| 6 | A proposal for a borough wide Leisure, Health and Wellbeing Campus went to Cabinet in July 2017. This report sought Members views on the Campus approach and as a result Cabinet resolved that a Cross Party Working group be established and a further report be presented to Cabinet detailing the findings and recommendations and a resource plan.   |
| 7 | At the Cabinet meeting of 25th January 2018, the 'Financial Case for the Health, Leisure and Wellbeing Campus Programme' report was considered which outlined a proposed 5 year Capital Plan for Health and Wellbeing. A budget of £24.45m was set for Health, Leisure and Wellbeing which included £15m allocated for a new leisure facility. The decision made from that meeting was that Council be recommended to approve the investment programme and that it should be incorporated into the Council's Capital Strategy. The Capital Strategy was then approved at the following Council meeting in February 2018.   |

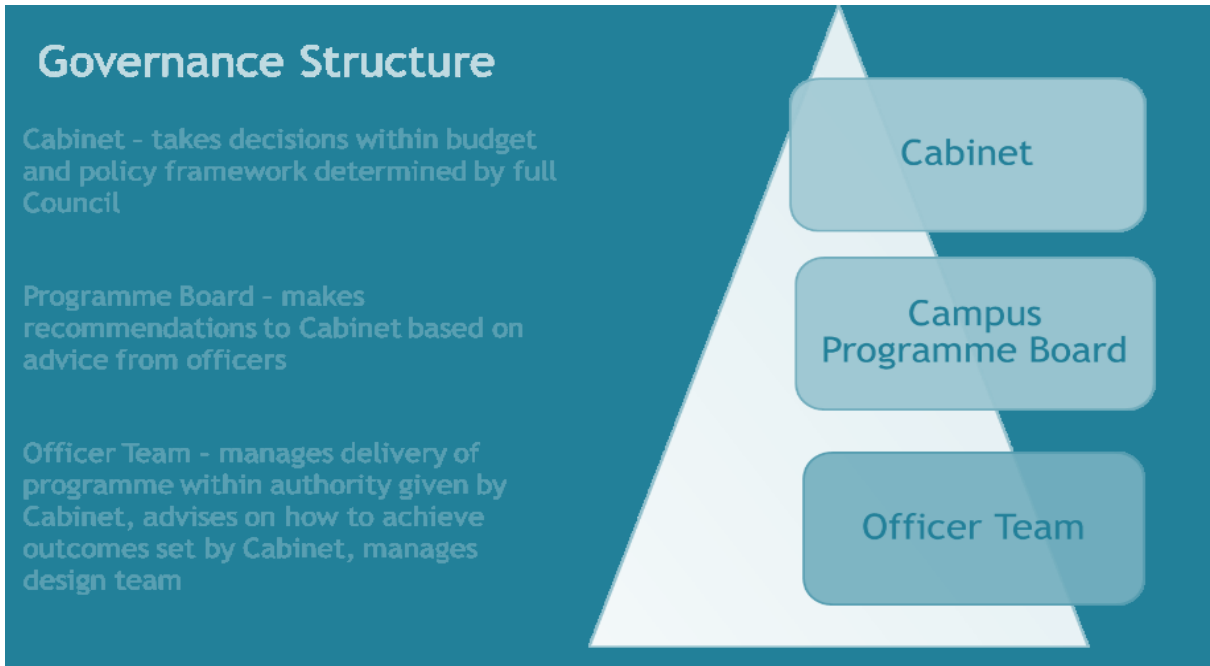
In accordance with the Public Sector Internal Audit Standards, internal audit has been the subject of an independent external assessment, which concluded that the 'internal audit activity conforms to the Standards'

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|    | <b>Procurement process &amp; appointment of Faithful &amp; Gould</b>   |
| 8  | <p>Following numerous discussions between the Specialist Advisor (for the project) and the Principal Procurement Officer, two direct award frameworks, both of which provided a compliant route to market were identified for the procurement of professional services in construction and premises for the Health and Well Being Campus project.</p> <p>As part of the procurement process, meetings took place with the Principal Procurement Officer and Specialist Adviser with both companies providing clarification documents and proposals:</p> <ul style="list-style-type: none"> <li>○ Pagabo National Framework for professional services in construction and premises – Lot 1 awarded to Faithful and Gould Ltd; <b>Fee £1,620,000</b></li> <li>○ Scape Built Environment consultancy services framework – awarded to Perfect Circle.(joint venture between Pick Everard, Gleeds and Aecom. <b>Fee £854,000</b></li> </ul>   |
| 9  | Approval of the procurement of the development team via a single source, direct award framework was included in the report to Cabinet in June 2018 - First Phase of Campus Programme.  |
| 10 | <p>Paragraph 31.5 of the Council's Contract Procedure Rules refers to Framework Agreements and states:</p> <p><b><i>"Where a public sector framework is used in accordance with the above provisions, without entering into a full, separate procurement process, all other relevant aspects of these procurement rules will still apply, including any approval which may be required for the procurement award procedure (in this case to use the identified framework), approval for the evaluation criteria and weightings (in the event of a further competition under the framework), and approval for the contract award prior to contract acceptance".</i></b></p>   |
| 11 | Advice from the Principal Procurement Officer and the Monitoring Officer confirmed that in the next report to Cabinet, Members could be updated with details of which framework was chosen and why.  |
| 12 | Following a thorough assessment of all the documentation and interview notes from the initial review, it is clear that a comprehensive, documented evaluation of the two frameworks was not developed and considered by officers involved in the project.  |
| 13 | <p>The next report was taken to Cabinet 12th September 2018 seeking approval to enter into a contract with Faithful and Gould Ltd. via the PAGABO Framework on the basis that the final proposal fee did not exceed £1.8m. This sum was based upon the percentage of the total build cost at industry standard between 10-12%. Whilst the report gave a written commentary of the reasons why the PAGABO framework had been selected, it did not contain comprehensive evaluation details.</p> <p>In addition, the report did not contain sufficient detail regarding the professional fees outlined under each framework. The indicative fees outlined in the original proposals differed significantly with the Pagabo framework/Faithful &amp; Gould Ltd proposal exceeding the SCAPE framework by approximately £800,000.</p> <p>The minutes of this Cabinet meeting show that Councillor P Foster queried the lack of detail provided in the report and requested that the decision be deferred. The recommendation was however, supported, but this decision was later called in at Scrutiny Committee on 27th September 2018.</p> |

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| 14 | A more detailed report was requested for the next meeting of Cabinet (17/10/18), this report included further information in respect of the governance arrangements and outlined only 1 distinct difference between the two frameworks. Further, some of the reasons for choosing PAGABO, could equally have been reasons for choosing SCAPE. There was no comparison made between the services that both frameworks could provide and the reasons also failed to detail the likely fee for the contract award.  |
| 15 | <p>The process, as detailed above contains the following weaknesses / non-compliance with the Council's Contract Procedure Rules:</p> <ul style="list-style-type: none"> <li>One of the main purposes of the CPRs is "to obtain Best Value in the way the Council spends money, so that in turn it offers better and more cost-effective services to the public." The process above, has failed to comply with the requirement as there is a lack of evidence / failure to produce a documented evaluation to support that the Council obtained the best value with this exercise. This requirement is fundamental in adhering to Contract Procedure Rules and especially since at £1.8m, this contract was for a significant value. Even after further detail was requested as a result of a Scrutiny Committee decision, the extra detail that was provided was not an evaluation of the two frameworks.</li> <li>CPRs state that "Effective audit trails must be maintained at all stages throughout the procurement procedure, particularly when approval or agreement is required and at evaluation/decision making stages." As highlighted above, the Council is unable to provide details of the reasoning behind why one framework was recommended to members as being the best option.</li> </ul> |
|    | <b>Determine if effective governance arrangements were in place in respect of the project</b>  |
| 16 | <p>The report to Cabinet in October 2018 contained details of the governance arrangements for the project, as detailed below:</p> <ul style="list-style-type: none"> <li>A cross party Campus Programme Board and its role being to make recommendations to the Cabinet;</li> <li>An Officer Project Team, which at that point in time, was is in the process of finalising a formal Project Implementation Plan alongside taking measures to accelerate the programme. At each meeting the team would review: <ul style="list-style-type: none"> <li>Programme and progress against programme</li> <li>Budget and performance against budget</li> <li>Current issues</li> <li>Strategic risks</li> <li>Quality and acceptance of work produced</li> <li>Approves the report to go the Campus Programme Board agreed decisions</li> </ul> </li> </ul> <p>The report expanded on the governance arrangements by stating that the first meeting of the Campus Programme Board was held on the 20<sup>th</sup> September 2018. Subsequent meetings will be held fortnightly alternating with officer project team meetings. Reports to the Campus Programme Board will be reviewed by the Officer Project Team before issued to members.</p>  |

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| 17 | <p>A further report was presented to Cabinet which included updated governance and reporting processes as detailed below:</p>  <p><b>Governance Structure</b></p> <p>Cabinet - takes decisions within budget and policy framework determined by full Council</p> <p>Programme Board - makes recommendations to Cabinet based on advice from officers</p> <p>Officer Team - manages delivery of programme within authority given by Cabinet, advises on how to achieve outcomes set by Cabinet, manages design team</p>   |
| 18 | <p>Details of the membership of each group was included as:</p> <p><b>Campus Programme Board:</b><br/>Members - Leader of the Council, Portfolio Holders or deputies, Shadow portfolio Holders or deputies<br/>Officers: Chief Executive, Deputy Chief Executive of Regeneration and Growth, Interim Project Director pending the arrival of the Assistant Director of Neighbourhoods and Development.</p> <p><b>Officer Project Team:</b><br/>Deputy Chief Executive Regeneration and Growth, Director Planning and Property, Director of Neighbourhoods and Development, External Project Director (until DCE in post then AD Projects and Development), Leisure Manager, Planning Manager, Project member Leisure Centre, Procurement, Legal and Finance.</p>   |
| 19 | <p>The minutes from both Cabinet meetings confirm that the governance arrangements were unanimously agreed.</p>  |
| 20 | <p>The review of the files and evidence identified the following control failures:</p> <ul style="list-style-type: none"> <li>Given the significant financial aspect to the project, the Section 151 Officer was not a member of the Campus Programme Board. Furthermore, only a representative from Finance is included in the Officer Project Team and not specifically the S151 Officer;</li> <li>Comprehensive minutes from the Campus Programme Board meetings were not taken, therefore discussions and outcomes in relation to individual agenda items cannot be reviewed, and an audit trail of documented decisions is not available. Corporate Support confirmed that officers were informed that minutes were not necessary. Only action points only were documented and retained for the Campus Programme Board.</li> <li>Evidence suggests that the last Campus Programme Board meeting was held on 11/01/19 after a total of seven meetings. There are no action points available for this meeting and we are unable to ascertain why these meetings ultimately ceased;</li> </ul> |

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|    | <ul style="list-style-type: none"> <li>• Officer Project team meetings were held; however the frequency of the meetings was not as agreed by Cabinet as they were held on a monthly basis rather than fortnightly. In addition, there is no evidence of the team approving the report to go the Campus Programme Board as set out in the stated governance arrangements.</li> <li>• Senior officers of the project officer team were absent from meetings at the point in time when it became clear that the emerging costs were far in excess of the £15m budget allocation.</li> <li>• Meetings between the Council and the design team (officer project team meetings) continued monthly until 19/07/19, however it is unclear from the absence of Campus Programme Board meetings or Cabinet reporting where ongoing progress/issues were being reported or escalated.</li> <li>• Given the size and value of the project, the review of the files and data held on In-phase (the Council's project management system) has revealed limited project management documentation.</li> </ul> |
| 21 | The lack of records of the Campus Programme Board and lack of project documentation demonstrates a clear disregard for the governance arrangements put in place for this project. Governance arrangements ensure effective decision making, meaning that Members were unable to make effective decisions in regard to this project.  |
|    | <b>Ensure procedures in respect of key decisions have been adhered to</b>  |
| 22 | The Council considers a key decision as one which is likely to be significant in terms of expenditure or savings, or significant in terms of its impact on communities. The financial threshold at which expenditure or savings becomes significant is set at £100,000.  |
| 23 | A series of key decisions in relation to the Health & Wellbeing Campus were made by Cabinet and are outlined in the Cabinet report and minutes of 21/06/18, 12/09/18, 17/10/18 and 21/11/18. An additional report was planned for 23/01/19 to provide a detailed programme of activity for the project.  |
| 24 | <p>In addition, the report to Cabinet in October 2018 contained the following detail:</p> <ul style="list-style-type: none"> <li>• every key decision of this programme the Program Director appointed following Cabinet approval 21<sup>st</sup> June 2018 will review the contract on value, price and quality and will refer all decisions above £100,000 back to Cabinet.</li> </ul>   |
| 25 | From the documentation available for review there is evidence that the project team were in possession of emerging information in December 2018 advising that the approved budget for the project was going to be insufficient for the scope of the project that had been outlined. Additionally, an increase in professional fees for Faithful & Gould Ltd was anticipated in line with additional work that would be required that was not included within the original brief.   |
| 26 | It was the intention of the project team to present this significant information to Cabinet on 23/01/19 as a draft report flagged as a key decision was prepared and circulated for officer comments, however this report was never provided to Cabinet.   |
| 27 | It is evident from the content of the draft report prepared in December 2018 and a subsequent feasibility study received in late January 2019, that it was apparent to the project team that the initial allocated amount of £15 million was not going to be adequate for the planned scope of the project, with revised costings now being projected between £23-26 million. As no further reports were provided to Campus Programme Board Meetings, Cabinet or Council, members were not formally informed of the increased projected costs associated with the project and the budget was approved in February 2019 without note  |

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|    | or reference to these emerging costs. We are unable to ascertain from the documentation available why no further progress reports were provided to members, or the reasons why a substantial emerging cost for this flagship project was not highlighted to Cabinet or Council at this time.  |
| 28 | The evidence in the files does confirm that the portfolio holder was issued with the draft report, however whilst it is appropriate for the portfolio holder to be kept up to date, this action was not sufficient in itself to satisfy any obligations in regard to reporting / decision making.   |
| 29 | <p>At this point in time an opportunity was lost to advise Cabinet of the increased cost projections for the project and to allow consideration of the options that may have been available to the Council. Further opportunities to advise Cabinet were not taken and as detailed above no further update reports on the Health &amp; Well-being Campus were presented to Cabinet at any point thereafter. A report providing a history of the Leisure Campus was provided to Council on September 2019.</p> <ul style="list-style-type: none"> <li>During this period the design team, Faithful &amp; Gould Ltd continued to submit ongoing invoices as per the agreed payment schedule for their continuing work against their agreed fees of £1.8 million with a total amount of £600,000 paid out.</li> </ul> <p>Supporting evidence available for review does not provide insight to the reasons for the non-submission of the drafted report to the meeting of 21/01/19 and the subsequent lack of reporting to Cabinet.</p> |
| 30 | <p>Review of the evidence does however confirm that senior officers of the Council were aware of the emerging costs during December 2018. The Financial Regulations are clear in regard to all expenditure, including capital expenditure, in that: -</p> <ul style="list-style-type: none"> <li>Chief Officers are required to ensure that throughout the implementation period of a capital scheme, the specification remains consistent with the overall objectives of the scheme and that expenditure continues to deliver best value for money for the Council;</li> <li>Chief Officers must monitor and report capital expenditure and income for all schemes within the approved capital programme and identify any variations against the approved level of expenditure.</li> </ul>   |
| 31 | In addition to the non-compliance with the Councils FPRs, there is also a disregard by senior officers to refer all decisions above £100,000 to Cabinet. Senior officers allowed the project to continue in the knowledge that the initial agreed budget was insufficient and that further approval to increase the budget would be required.   |
| 32 | The report to Council in September 2019 provided a history of the Health & Wellbeing Leisure Campus project to the new administration of the Council that had come into effect after the local elections in May 2019. It outlined an up to date assessment of the status of the project, an understanding of the state of Leisure stock within the borough, the options available for potential next steps and a summary of the operations management arrangements for South Ribble's Leisure Centres.  |

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| NO. | FINDING   | ACTION TAKEN   |
|-----|---|--|
| 1   | <p><u>Procurement and CPR's</u></p> <p>There was a failure to record and retain robust documentation for the procurement of professional services for the design and construction element of the project; particularly with regards to a comprehensive, documented evaluation of the suitable framework agreements identified.</p> <p>Effective audit trails must be maintained at all stages throughout the procurement procedure as outlined in the Council's CPR's to support the requirement "to obtain Best Value in the way the Council spends money, so that in turn it offers better and more cost-effective services to the public."</p> | <p>Procurement and Legal Services have provided Procurement and Contract Procedure Rules training to key procuring officers during 2020/21, incorporating all elements of the procurement cycle including the use of Framework Agreements.</p> <p>The 'Staff Guide to Procurement' was reviewed and updated in February 2021 to support the training undertaken.</p> <p>The Councils Constitution, including the financial regulations and scheme of delegation was reviewed and updated in February 2021.</p> <p>Governance &amp; Ethical Governance Training was provided to Members with a Member Ethical Decision Making and a Member Code of Conduct Learning Session held during August and September 2020; and training to key officers provided in October 2020.</p> |
| 2   | <p><u>Key Decisions</u></p> <p>There was a failure to refer all decisions above £100,000 to Cabinet and provide regular update reports to Cabinet in accordance with requirements set out in the Cabinet reports of 17/10/18 &amp; 21/11/18.</p> <p>Opportunities were lost to advise Cabinet of the increased cost projections for the project, and to allow consideration of the options that may have been available to the Council.</p>   | <p>A 'Compliance with CPR's Review' was recently completed by Internal Audit, and an adequate assurance rating awarded. Actions have been agreed with Procurement and Legal Services to further strengthen internal controls and aid compliance with the Council's CPR's.</p>  |

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| <b>MANAGEMENT ACTION PLAN</b> |
|-------------------------------|

| NO. | FINDING   | AGREED ACTION   | OFFICER & DATE   |
|-----|---|---|--|
| 1   | <p>It is understood that the Project Management System (InPhase) utilised during the Health &amp; Wellbeing Campus project is no longer in use and a refresh of the Performance Management Framework (PMF) to incorporate the use of a project management toolkit, is currently being undertaken.</p> <p>The updated PMF should set out the standards and level of documentation that should be retained for Programme Board meetings to ensure there is consistency and transparency in relation to:</p> <ul style="list-style-type: none"> <li>• Meeting attendance including the attendance of statutory officers where applicable;</li> <li>• Topics for discussion;</li> <li>• Decision-making and recommendations for further approval by Committee/Cabinet;</li> </ul> <p>across all projects.</p> | <p>Future projects of this nature and scale identified in the Corporate Plan/Strategy will be managed through the Corporate Strategy Programme Board with all associated agendas, reports and minutes retained within the Mod.gov system.</p> <p>To further improve standards and ensure consistency of approach across all Council projects, the project management toolkit is currently being refreshed and strengthened to provide clarity and direction for project team members in the following areas:</p> <ul style="list-style-type: none"> <li>• Approval process for the governance arrangements of large capital programmes;</li> <li>• Document management including retention requirements for major capital or corporate projects.</li> </ul> | <p>Vicky Willett</p> <p>Shared Service Lead Transformation and Partnership</p> <p>Dec 2021</p> |



# Final Internal Audit Report

## Review of Neighbourhood Records 2020/2021

Audit Assurance: Limited  
Auditor: Struan Jackson  
Date Issued: 10<sup>th</sup> September 2021

| Reason for the Audit & Scope |   |
|------------------------------|---|
| 1                            | <p>Reliable and up to date information helps the Council support effective decisions and can help drive efficient working practices throughout the organisation. Neighbourhood Services maintain a core database for their Grounds Maintenance and Streetscene Services which encompasses records for play equipment inspections and maintenance; parks inspections and maintenance; environmental enforcement; street cleansing; the installation and maintenance of street furniture and signage; work scheduling and details of important ad hoc jobs that are in progress/completed.</p> <p>It is essential that the information held within the database is well maintained, up to date and supported with accurate records to aid with efficiencies and improve customer satisfaction with the Council's outdoor spaces.</p> <p>The review is included in the 2021/22 Annual Audit Plan approved by the Governance Committee on the 23<sup>rd</sup> March 2021.</p> |

| Audit Objectives |  |
|------------------|--|
| 2                | <p>The overall objective of the audit was to provide an opinion of the adequacy, application and reliability of the key internal controls put in place by management to ensure that the identified risks are being sufficiently managed: The risks included in this review were:</p> <ul style="list-style-type: none"> <li>• Security of records;</li> <li>• Accuracy and completeness of data;</li> <li>• Database is unable to encompass all required data/tasks;</li> <li>• Unauthorised amendment to records;</li> <li>• Potential for the loss of data.</li> </ul> |
| 3                | <p>The audit also assessed the effectiveness of the various other sources of assurances using the three lines of defence methodology.</p>  |

| Audit Assurance |  |
|-----------------|--|
| 4               | <p>The Head of Internal Audit is required to provide the Governance Committee with an annual audit opinion on the effectiveness of the overall control environment operating within the Council and to facilitate this each individual audit is awarded a controls assurance rating. This is based upon the work undertaken during the review and considers the reliance we can place on the other sources of assurance.</p>   |
| 5               | <p>To manage, control and direct workload, Neighbourhood Services utilise a series of Microsoft Access databases incorporating:</p> <ul style="list-style-type: none"> <li>• Grounds Maintenance;</li> <li>• Streetscene Services and</li> <li>• Health &amp; Safety.</li> </ul> <p>These were developed in house by an officer who ceased his employment with the Council early 2021. This system is currently unsupported as no training or procedural guidance has been provided for other officers and ICT Service does not support the use of Microsoft Access databases. Officers within Neighbourhood Services do not contain sufficient knowledge in order to be able to undertake administrative responsibilities to the system.</p> <p>We are unable to confirm the accuracy of the data held within the databases due to the following reasons:</p> |

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- Whilst the standing data of known council assets, property records and maintenance schedules are extremely detailed, no amendments have been made since the departure of the officer in early 2021;
- Whilst we were able to undertake some testing, this was limited due to lack of source data to support the standing data;
- Officers using the databases have highlighted inconsistencies in the data and have to undertake additional tasks to verify land ownership etc.
- Supervisor checks, which were a key control in maintaining the accuracy of the data, ceased at the start of the Covid pandemic and to date have not yet resumed. These checks highlighted changes required to the standing data;
- Without re-programming the database, it is not possible to identify outstanding supervisor checks. Officers are not sufficiently knowledgeable about the system to perform this task.

As a result of the databases not fully reflecting the council's assets, additional Microsoft Excel spreadsheets have been developed in order to direct and control the current workload. This presents additional risks of error, duplication and inefficiencies within the system.

The lack of accurate data will also impact upon the Councils GIS system as this records the precise location of council assets.

Access to the system is unrestricted. Any officer who can access Neighbourhood Services K drive can add, delete or amend records without trace as the system also does not incorporate a comprehensive audit trail to monitor activity.

The databases are non-compliant with the requirements of GDPR as it contains over 2400 customer contact details ranging back to 2003 and does not have a recognised asset owner.

Due to the significant risks to the system and council data, a **Limited** assurance rating has been awarded for this review

#### **Control Rating Key**

**Full** – the Authority can place complete reliance on the controls. No control weaknesses exist.

**Substantial** - the Authority can place sufficient reliance on the controls. Only minor control weaknesses exist.

**Adequate** - the Authority can place only partial reliance on the controls. Some control issues need to be resolved.

**Limited** - the Authority cannot place sufficient reliance on the controls. Substantive control weaknesses exist

| Risk and Controls  | Control Evaluation                                   |
|--|--|
| <p><b>Risk 1 - Records are not secure</b></p> <p>Access permissions to the databases and supporting records are restricted to appropriate officers only.</p> <p>Defined levels of access to the database have been established preventing unauthorised access.</p> <p>An Information Access Owner has been clearly designated for the database and supporting records.</p> <p>Records of access permissions are maintained by the Information Asset Owner.</p> <p><b>Risk 2 - Database is unable to encompass all required data/tasks</b></p> <p>All relevant workflow data is captured by database.</p> <p>Duplication of records &amp; tasks is clearly prevented.</p> <p>The database holds only essential data.</p> <p>The database is accurately updated preventing unauthorised amendment and deletion of data</p> <p><b>Risk 3 - Data held is not accurate</b></p> <p>Procedural guidance is in place to ensure officers are suitably trained on the use of the database and are aware of its requirements.</p> <p>Records are regularly updated and maintained:</p> <ul style="list-style-type: none"> <li>• Standing / Core Data.</li> <li>• Maintenance Records.</li> </ul> <p>Information held is accurate and complete.</p> <p>Ad hoc data quality checks are undertaken.</p> <p>Information held complies with the Council's data retention requirements.</p> <p><b>Risk 4 - Unauthorised amendment to records.</b></p> <p>Amendments &amp; deletions to records is completed by authorised officers.</p> <p>Officer access levels to amendments &amp; deletions have been clearly defined.</p> <p>Supervisory checks of inputted &amp; exported data are completed.</p> <p>An audit trail of amendments is maintained.</p> <p><b>Risk 5 - Loss of data.</b></p> <p>Clear procedures are in place to ensure integrity of data.</p> <p>Information is correctly &amp; appropriately deleted.</p> <p>Ad hoc checks of data integrity are undertaken.</p> <p>Data is fully backed up and can be restored in the event of a system failure.</p> | <p>See Appendix B<br/>Management Action<br/>Plan</p> |

\*Additional risks and controls identified by Internal Audit to be added to GRACE

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## AUDIT ASSURANCE

### Three Lines of Defence

| Audit Area             | 1 <sup>st</sup> Line | 2 <sup>nd</sup> Line | 3 <sup>rd</sup> Line | Internal Audit opinion  |
|------------------------|----------------------|----------------------|----------------------|---|
| Neighbourhood Services | Senior Officers      | Information Services | Internal Audit       | Due to concerns raised by officers we are unable to place any reliance on either the first or second line of defence. |

| Risks Examined   | Full | Substantial | Adequate | Limited |
|--|------|-------------|----------|---------|
| Risk 1 - Records are not secure                                  |      |             |          | ✓       |
| Risk 2 - Database is unable to encompass all required data/tasks |      |             |          | ✓       |
| Risk 3 - Data held is not accurate                               |      |             |          | ✓       |
| Risk 4 - Unauthorised amendment to records                       |      |             |          | ✓       |
| Risk 5 - Loss of data.   |      |             |          | ✓       |
| <b>OVERALL AUDIT OPINION</b>                                     |      |             |          | ✓       |

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|                               |
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| <b>MANAGEMENT ACTION PLAN</b> |
|-------------------------------|

| NO. | FINDING   | AGREED ACTION   | OFFICER & DATE   |
|-----|---|---|--|
| 1   | <p>Our work has confirmed that the current database in operation has a number of significant system weaknesses.</p> <p>It is our understanding that alternative solutions to the use of the data base are currently being explored, which would eliminate the control weaknesses identified.</p> <p>Failure to implement an alternative approach leaves the council exposed to the risks identified in this report.</p> | <p>There are plans to implement an alternative solution currently being implemented by Chorley Council. This is due to be fully mobilised by March 2022. The benefits of this solution are significant will ensure a central database is established to record asset related information and work schedules.</p> <p>It is prudent to only implement this system once it is fully live at Chorley Council.</p> <p>Implementation at South Ribble can be undertaken during April – June 2022.</p>   | <p>Director Customer and Digital</p> <p>June 2022</p>  |
| 2   | <p>Our work highlighted that we could not place reliance upon the accuracy of the data held within the current database. As a result, alternative solutions are being introduced to direct and control the workload of Neighbourhood Services.</p>  | <p>In preparation for the implementation of the replacement IT system during Q1 2022 (as indicated above) a programme of work will be agreed to ensure a full and comprehensive review of all existing data assets. This is will then ensure accurate assets maintenance schedules and performance data.</p> <p>Asset data validation will be a project for the newly appointed Neighbourhoods Manger once recruitment is undertaken over the coming weeks.</p> <p>This work is intended to be completed by March 2022 in preparation for data migration to the new system.</p> | <p>Director Customer and Digital</p> <p>March 2022</p> |

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# Assessment of matters relating to the Wesley Street Mill and McKenzie Arms sites in Bamber Bridge

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| Contents  | Page |
|---|------|
| 1 Introduction  | 1    |
| 2 The council's concerns in commissioning this assessment     | 1    |
| 3 Conclusions   | 2    |
| 4 Events as set out in the files                              | 4    |
| 5 Valuations of the McKenzie Arms site                        | 5    |
| 6 Drafting of the contract to transfer the McKenzie Arms site | 7    |
| 7 The interconnectedness of the transactions involved         | 8    |
| 8 Reports to the council                                      | 9    |

## 1 Introduction

- 1.1 This report has been prepared for South Ribble Borough Council by Lancashire County Council's Internal Audit Service, at the request of the borough council's chief executive.
- 1.2 It sets out the findings of an assessment of the information provided on the following paper files, provided on 23 August 2018:
- Wesley Street Mill EST/1/0/49
  - Development Projects – Wesley Street Mill, Bamber Bridge – M20/1
  - Development projects – Wesley St Mill – Project team papers – M/20/1/1
  - Development projects – Wesley St Mill – Legal papers – M/20/1/2
  - Site of McKenzie Arms Bamber Bridge – M20/2
  - MacKenzie Arms M20/2
  - Various loose documents
- 1.3 Inevitably, given the restricted nature of the information available, a fully balanced assessment cannot be made of the concerns raised by the council at this point in 2018. None of the officers involved has been contacted.

## 2 The council's concerns in commissioning this assessment

- 2.1 The council has indicated that it is concerned about the following:
- Whether the council's actions were appropriate to serve the best interests of the community and council

- Whether appropriate due diligence was undertaken to support the purchase of the McKenzie Arms
  - Whether the purchase of the McKenzie Arms was achieved at the best consideration for the council
  - The nature of overage associated with the McKenzie Arms transaction in relation to the development of the Wesley Street Mill site
  - Whether the advice given to officers was properly taken.
- 2.2 Allegations have also been made that the leader of the council in 2012 had some relationship with the owner of the McKenzie Arms. However this matter has already been addressed by the council's own internal audit and legal services and is not considered any further in this report.

### **3 Conclusions**

- 3.1 The council's intentions in 2008 and after were reasonably clear: to regenerate a large, derelict brownfield site in Bamber Bridge and to do so holistically through a land assembly with appropriate access to the local road network. The council intended to achieve this through negotiations with the private landowners and, if negotiations were not concluded promptly in 2008, by operating through a developer partner, and potentially using the council's powers of compulsory acquisition.
- 3.2 Conditional decisions were made to seek a developer partner in 2008 and again in 2011, but it does not appear that one was ever appointed.
- 3.3 The council's officers were clearly aware of the complexities of the site's ownership and the interdependencies of issues relating to its access, but were unable adequately to address these. The risks inherent in the council's purchase of the McKenzie Arms site independently of any other negotiations to assemble the whole site were identified and articulated by one of the council's estates surveyors in February 2011, even as officers pursued the purchase of the McKenzie Arms site alone. These risks have since crystallised.
- 3.4 The council's objective of developing the site is only now being realised, more than ten years after the need to regenerate it was first considered and without the access intended onto the larger of the local roads. The council remains the owner of a small part of the site, for which it paid a premium to facilitate that access.
- 3.5 Since it was accepted in 2012 that the council was buying the McKenzie Arms site to enable access to the larger site, the purchase price of £499,999 itself does not appear unreasonable, being located some way between different valuations made by the council's own officers and advisors. However the council has not been able to capitalise on the premium it paid, primarily due to the restrictions placed upon its re-sale to any new owner by its former owner as the transfer to the council was negotiated.
- 3.6 The negotiation of the contract for the council's purchase of the McKenzie Arms site was clearly difficult but the contract's terms and the manner of their drafting have left it requiring interpretation, and the results now present too great a financial risk for any future owners until October 2032.

### **Matters for the council to consider**

- 3.7 The matters for the council to consider that arise from this assessment are reasonably clear at a superficial level (even if difficult to achieve in practice) – the need to ensure that related transactions are properly connected and completed together for example – but may be more difficult to identify and address at a more fundamental level. It is reasonable to assume that the officers involved at the time acted in good faith and with the best of intentions but, collectively, there were some clear points of failure that may inform the way the council operates in future to achieve its objectives.
- i) Whilst the council clearly intended to achieve the regeneration of Bamber Bridge, any plans it made do not appear to have been adequate, or effectively pursued in practice.
  - ii) The reports to the council do not appear fully to have reflected what officers and external advisers were considering in practice and, conversely, decisions made by the council do not appear to have been adequately enacted by officers.
  - iii) Acknowledging that the information available is limited, elected members do not appear to have questioned the progress of the project, or if they have, to sufficient effect.
  - iv) Having recognised the risks to the council of progressing with the purchase of the McKenzie Arms site alone, this was precisely the action taken. The process by which the decision to do so was proposed by officers and recommended to the council is not clear.
  - v) A number of advisers were commissioned to act on the council's behalf, but the drafting of the contract for the transfer of the McKenzie Arms site was undertaken by the council's own legal team. The problematic wording of this contract has effectively precluded the sale by the council of the site to any developer before 2032, and has left it, derelict, in the council's ownership even as the rest of the larger site is being developed.
  - vi) A project team was established in November 2011 and a number of officers met regularly until April 2013, including those central to the project. Risk and issues logs, risk matrices and project timelines were prepared and minutes kept but it is not clear what value was added, if any, by these meetings and documents.

## **4 Events as set out in the files**

- 4.1 Documents available on the files indicate that the following events took place but, in relying solely on this information, this narrative is almost certainly incomplete.
- 4.2 There is little information prior to 2011. In May 2008 the council considered a report setting out the potential use of compulsory acquisition powers to redevelop a site in Bamber Bridge and seeking agreement to advertise for developer partners if no significant progress was made with the private landowners. However the McKenzie Arms, a relatively small part of the whole site, but one with access to the largest of the local roads, Station Road, was

bought in 2008 by Beardsworth Developments Limited with the intention of building social housing.

- 4.3 By early 2011 Excelsior Properties as the owner of the largest parcel of land, the Wesley Street Mill site, was in negotiations with Beardsworth Developments Limited, to purchase the McKenzie Arms site. However although offers were made, negotiations were not completed. In February 2011 the Valuation Office Agency (VOA) was instructed by the council to value the site, and the council was made aware of the offers being made for it by Excelsior Properties. The council too, through the VOA, offered to buy the site and negotiated this during March 2011.
- 4.4 On 20 July 2011 the council decided to delegate to its cabinet consideration of the compulsory acquisition of the whole site, subject to the selection of a developer partner.
- 4.5 The first step set out in the report to the council on 20 July 2011 – the selection of a developer partner – was not successfully progressed, although there is some evidence that officers worked on this later with an external consultant. The need for an options appraisal and soft market testing were identified by an external adviser in April 2012 in preparing a brief to assist potential developers, but there is no evidence on file that these were undertaken.
- 4.6 The council does not appear to have had a clear view about the eventual use to which the site should be put, although retail usage was suggested by the council's planning officers in March 2012. Housing was clearly already being considered by Beardsworth Developments Limited as the owner of the McKenzie Arms, and the owner of the larger Wesley Street Mill site was also seeking planning permission for residential use.
- 4.7 At the same time, other options for the whole site were still being suggested by Beardsworth Developments Limited, who proposed their own developer partner. An offer in early 2012 by the potential developer to purchase the larger Wesley Street Mill site was rejected by Excelsior Properties.
- 4.8 Negotiations by the council for the purchase of the McKenzie Arms site continued through 2012, complicated by the difficulty of its valuation as part of the wider site and as a point of access to the site.
- 4.9 A contract for the transfer of the McKenzie Arms to the council from Beardsworth Developments Limited was signed on 25 October 2012, including clauses establishing the conditions under which additional payments ('overage') would be made to Beardsworth Developments Limited by the council and any subsequent owner(s) if the site's value increased after its development. The pub itself was immediately demolished.
- 4.10 The council then entered into negotiations with the owner of the Wesley Street Mill site for the onward sale of the McKenzie Arms site. These negotiations continued through 2013 and 2014 but the uncertainty arising from the overage clauses in the contract for the site's transfer to the council meant that agreement could not be reached. Therefore although reports were prepared for consideration by the council in March and July 2014 the transfer was not completed.

- 4.11 In December 2012 two applications for planning permission had been submitted for residential development on the Wesley Street Mill site, both with and without access from Station Road and these were granted during 2013. During 2014 the owner negotiated the sale of the Wesley Street Mill site to Countryside Properties and, in 2015, completed the sale. At this point in 2018 it is clear from a visit to the site that the Wesley Street Mill site is being developed by Countryside Properties with access to the site through Wesley Street. The site of the McKenzie Arms remains derelict.

## **5 Valuations of the McKenzie Arms site**

- 5.1 The valuation of the McKenzie Arms site in 2012 was clearly complicated by a number of uncertainties.
- 5.2 Initially the problems facing the local and national economy arising in 2008 are likely to have, at least temporarily, reduced the site's value for any housing or retail use, whether alone or combined with any other site. The McKenzie Arms site was understood by the council to have some additional value though, as an access to any development on the larger Wesley Street Mill site by making that site easier to access from Station Road and therefore more marketable.
- 5.3 That ransom value was disputed and unclear however. At different times access from the larger road has been regarded as either fundamental to the development and necessary to obtain planning permission, or as effectively irrelevant. Beardsworth Developments Limited had initially sought planning permission for eleven properties on the McKenzie Arms site but the council intervened in early 2009 and prompted discussions between Beardsworth Developments Limited and Excelsior Properties. Excelsior Properties offered an alternative site fronting Wesley Street, with space for 22 properties similar to those intended on the McKenzie Arms site.
- 5.4 However the use of land to create additional access to Station Road from the combined site would have reduced the number of properties that could be built on the site and this was deemed arguably to negate the additional value to the site arising from better access.
- 5.5 The assembly of this larger combined site was also dependent upon a land swap with Lancashire County Council to join the McKenzie Arms site with the Wesley Street Mill site. The land swap appears to have been agreed in principle if the whole site were to be developed.
- 5.6 These uncertainties in valuation were compounded after the transfer to the council in 2012 by the terms of the contract for the sale. These bind the council, and any future owner too (until 25 October 2032), to make additional payments to the vendor on the onward sale of the property, but their drafting was unclear and subject to legal interpretation (see section 6 below).

### **Potential and actual valuations proposed during negotiations**

- 5.7 Beardsworth Developments Limited paid £300,000 plus VAT for the McKenzie Arms site on 18 December 2008. They submitted a planning application for 11 properties, resulting in an implied value per plot of £27,273.
- 5.8 Beardsworth Developments Limited's representative claimed in January 2011 that, had planning permission been granted (and there was no valid reason it

would not have been), the site would have been worth £500,000, or approximately £45,500 per plot once developed.

- 5.9 On the basis that Excelsior Properties was prepared to exchange the site for an alternative site fronting Wesley Street that could accommodate 22 properties, and valuing each plot at £44,500 (it is not clear why the amount has been reduced slightly here), Beardsworth Developments Limited's representative estimated that the site could have been valued at around £980,000. He inferred from this that the McKenzie Arms site had considerable ransom value as access to the development of the Wesley Street Mill site. To expedite negotiations he proposed a discounted value for the site of £880,000.
- 5.10 In light of this information, in February 2011 the council's estates surveyor proposed that negotiations could be concluded quickly by offering £300,000 immediately, with a further £360,000 if and when terms were agreed with Excelsior Properties and the county council to yield the land exchange. At the same time he set out the options he saw as available to the council (see paragraph 7.5 below.)
- 5.11 At the same time Excelsior Properties' representative offered £400,000 for the McKenzie Arms.
- 5.12 In March 2011 the council's representative matched this offer of £400,000 (contingent on the county council not wanting a share in any ransom element) and offering to pass on 100% of any amount above this that Excelsior Properties paid to the council, less costs. This offer was rejected by Beardsworth Developments Limited as being less than the profit that would otherwise be available from the development of the site.
- 5.13 Beardsworth Developments Limited was prepared instead to accept £500,000 plus 100% of any amount above this that Excelsior, or a new owner, paid the council. This was not acceptable to the council, whose valuer advised that £400,000 reflected the site's ransom value, and that this would be the appropriate sum for a compulsory purchase order.
- 5.14 In July 2011 the council's valuer advised that if the council were to increase its offer, any additional payment obtained from a future developer should at least be shared with the council.
- 5.15 On 5 April 2012 the council made an offer through an estates surveyor to purchase the former McKenzie Arms for £450,000 with a further £50,000 to be paid when access from Station Road was gained to serve a retail development on part of the Wesley Street Mill site.
- 5.16 In response, on 1 May 2012 Beardsworth Developments Limited's representative proposed a sale for consideration of £499,999 with a further amount to become payable if additional access to the Wesley Street Mill site were constructed. If the county council were to seek to recover some of the enhanced value this would be shared equally between the county council and Beardsworth Developments Limited. If the council were instead to transfer ownership then Beardsworth Developments Limited would be entitled to 100% of the additional value.
- 5.17 Although the council's estates surveyor (by then he may have been acting as an independent consultant) could not recommend acceptance of the terms

proposed in May 2012, by late July, with amendment to require any additional value to be shared between the district council, county council and Beardsworth Developments Limited, the valuation had been accepted. Drafting began on a contract for the transfer of the property.

## **6 Drafting of the contract to transfer the McKenzie Arms site**

- 6.1 The attempts to reflect the uncertain long term value of the McKenzie Arms site, which was dependent upon later transactions, complicated the negotiation and eventual drafting of the contract for its transfer.
- 6.2 Once the valuation of the site was effectively settled in May 2012, considerable discussion focussed on the clauses in the contract for sale relating to overage. The discussions and drafting included consideration of the definitions of the current use of the Wesley Street Mill land, valuation and enhanced value, sequencing and trigger points, the first trigger event, permitted disposal, duty to notify, and duration of the agreements.
- 6.3 A contract for the transfer of the McKenzie Arms to the council from Beardsworth Developments Limited was signed on 25 October 2012 with consideration of £499,999, plus additional overage effective until October 2032.
- 6.4 The final contract was eventually drafted in such a way that problems became apparent within a month when a partner from DWF, supporting the council in November 2012 with advice on the procurement of a developer partner, raised some issues that they thought would be of concern to any future developers of the site.
- 6.5 Negotiations by the council to sell the site to the owner of the Wesley Street Mill site during 2013 and 2014 stalled on a number of issues, including planning permissions and section 106 agreements, but in particular the interpretation of the clauses in the contract relating to overage. Counsel's opinion was sought on two different aspects of the contract.
- 6.6 The council required clarification of the covenant established by the contract by which it would not dispose of the site without Beardsworth Developments Limited's prior written consent. Counsel was required to consider how the contract ought to be construed, and whether the clause was subject to an implied term such as that consent was not unreasonably to be withheld.
- 6.7 The council also then required counsel to consider whether the original purchase price was to be deducted in the calculation of the amounts payable as overage after a trigger event. Counsel considered that the council could not, as it had hoped, deduct the original purchase price when calculating the overage payable. He also stated that, "From the point of view of the Council, the scheme for the payment of overage lacks commercial sense."
- 6.8 It is apparent that the potential purchaser was unwilling to take the financial risks associated with the covenants entered into by the council for the benefit of the site's previous owner: the site was, and is, effectively unsaleable.
- 6.9 By September 2014 the problems for the council that officers identified as requiring specialist legal advice included: how overage would be calculated, the need for consent from the previous owner to the onward sale of the site, the need to make any contract for onward sale conditional on that consent,

preparation of litigation to force consent, planning issues and reserved matters, relocation of a transmitter mast from the mill and the mill's demolition.

## **7 The interconnectedness of the transactions involved**

- 7.1 As noted in section 5 above there was some complexity in the valuation of the McKenzie Arms site arising from the location of the combined site and its access to the local road network. This was further complicated by the ownership of the land required to assemble the combined site. The council had identified the need to use a developer partner to facilitate the site's assembly and development but it is not clear that one was ever appointed, then or subsequently.
- 7.2 Protracted negotiations with the private landowners had failed to progress the site's regeneration. The council was aware of the offers and valuations that had been made by the private landowners and, by February 2011, was itself considering the purchase of the McKenzie Arms site. The estates surveyor set out his assessment of the position in a briefing note at that point although it is not clear from the information available why the council would have considered purchasing the McKenzie Arms site alone.
- 7.3 He recognised that the site held some additional ransom value above its market value as an access point to the larger site and concluded that it would be right for the council to pay this. However he also noted that the council's objectives would be at significant risk, and it would be at risk of losing money if it paid this additional ransom element, "without tying up the access arrangement through a composite deal involving the current owners of the McKenzie Arms, School playing fields and Mill."
- 7.4 A process of land assembly therefore appears to have been required to manage the site as a whole and this was acknowledged. Indeed this had already been recognised by the council's intention to procure a developer partner.
- 7.5 An estates surveyor set out two options: either to conclude negotiations quickly by offering to buy the McKenzie Arms site for its market value plus overage later when terms had been agreed with Excelsior Properties and the county council; or to conclude deals with all parties before committing the council to buying the site. He noted that, "this may take weeks, if not months, given Excelsiors [sic] apparent track record in negotiations to date".
- 7.6 Officers then pursued negotiations over the next 20 months to purchase the site. No other deals appear to have been attempted and none were concluded. Further, as noted above at section 6, the wording of the contract for this first transaction then impeded its connection with any others.

## **8 Reports to the council**

- 8.1 Various reports to the council between 2008 and 2014 are held on the files, although it is not clear whether all of them were finalised and actually reported.
- 8.2 In May 2008 the council's agreement was sought in principle to the use of its powers of compulsory acquisition to secure the regeneration of the borough, as well as to advertise for developer partners if no significant progress has been made with the landowners.



- 8.3 In July 2011 the selection of a developer partner through a competitive process was recommended and, subject to that, if negotiations to acquire the land and interests failed, the council agreed to consider the compulsory acquisition of the the land and interests.
- 8.4 In July 2012 the council was asked to agree to acquire the McKenzie Arms site, authorise expenditure on the demolition of the pub, and establish a capital budget to cover these costs and the potential future costs arising from the compulsory purchase order process if necessary.
- 8.5 The report set out the offer that had been made in May 2012 by the council to acquire the site for £450,000 with a further £50,000 when access from Station Road was gained to serve a retail development on part of the Wesley Street Mill site: but this offer had been rejected. The smaller amendment to the offer that had been negotiated regarding additional value (see paragraph 5.16) was however reflected in the report.
- 8.6 Later reports to the council were drafted in 2014 relating to the disposal of the McKenzie Arms site, but it is not clear whether any were taken.
- 8.7 Considered alone, the reports to council available on the files are insufficient to support a full understanding of the rationale for the eventual purchase and use of the McKenzie Arms site. Nor is it clear that the decisions taken by the council – the selection of a developer partner in particular – have been enacted, but it is possible that other information, not available here, was made available to members.

|   |
|---|
| <p>We have prepared this report solely for the use of South Ribble Borough Council and it would not therefore be appropriate for it or extracts from it to be made available to third parties other than the external auditors. We accept no responsibility to any third party who may receive this report, in whole or in part, for any reliance that they may place on it and, in particular, we expect the external auditors to determine for themselves the extent to which they choose to utilise this work.</p> |
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INTERNAL AUDIT PERFORMANCE INDICATORS AS AT 27<sup>th</sup> AUGUST 2021

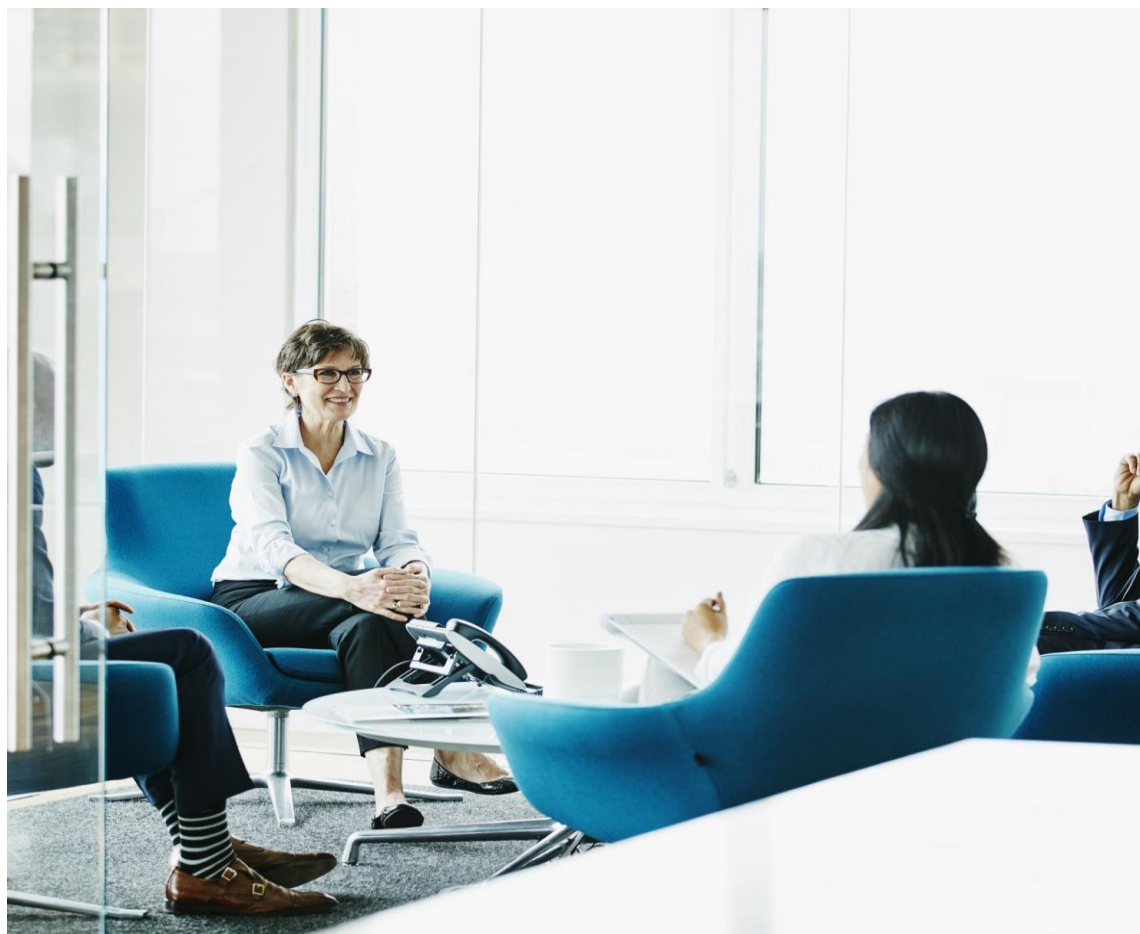
|   | Indicator                                     | Audit Plan | Target 2021/22 | Target to Date | Actual to Date | Comments              |
|---|---|------------|----------------|----------------|----------------|-----------------------|
| 1 | % of planned time used                        | SRBC       | 90%            | 37.5%          | 34.5%          | Slightly below target |
| 2 | % audit plan completed                        | SRBC       | 90%            | 21%            | 18%            | Slightly below target |
| 3 | % satisfaction rating (assignment level)      | SRBC       | 90%            | 90%            | 98%            | Target exceeded       |
| 4 | % of agreed actions implemented by management | SRBC       | 90%            | 90%            | 50%            | Below target          |
|   |   | SS         | 90%            | 90%            | 65%            |                       |

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# The Audit Findings for South Ribble Borough Council

**Year ended 31 March 2021**

29 September 2021





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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 will be discussed with the Governance Committee.

*Georgia Jones*

Name : Georgia Jones  
For Grant Thornton UK LLP  
Date : 21 September 2021

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 2021 for those charged with governance.

| Financial Statements   |  |
|--|--|
| <p>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:</p> <ul style="list-style-type: none"><li>the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year; and</li><li>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.</li></ul> <p>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.</p> | <p>Our audit work was conducted remotely during July - September. Our findings are summarised on pages 2 to 19.</p> <p>We have identified three adjustments to the financial statements. These have not resulted in an overall adjustment to the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix A.</p> |

# 1. Headlines (continued)

## Financial Statements

Our work is nearing completion however, the matters outstanding to be resolved before we are able to issue our audit opinion are:

### Remuneration and employee benefit expenditure

- Evidence to support the exit packages paid in year

### Property, plant and equipment matters

- Responses from the external valuer to support our review of the valuation of land and buildings and investment properties

### Expenditure and Creditors

- Review of evidence to support sample of other service expenditure transaction and creditor balances

### Income and Debtors

- Review of evidence to support sample of Fees and charges transactions and debtor balances
- Assessment of recognition policies for Covid-19 grant funding

### Journals

- Review of evidence to support manual journals selected for testing

### Pensions

- Assurances required from auditor of the Lancashire Pension Scheme

### Cash and cash equivalents and investments

- Confirmation of cash balances and investments held at 31 March 2021

### Financial statements, disclosures and other procedures

- Review of the final version of the financial statements
- Managements consideration of events after the reporting period
- Final file reviews by the engagement manager and engagement lead
- Receipt of management representation letter; and

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; and
- income and expenditure included in the financial statements have been applied for the purposes intended by Parliament.

Our anticipated audit report opinion will be unqualified.



# 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 now 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 not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in Appendix E to this report. We expect to issue our Auditor's Annual Report by 30 December 2021 at the latest. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

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. We identified risks in respect of:

- Deficiencies in the control environment
- Monitoring of service performance

Our work on these risks is underway and an update is set out in the value for money arrangements section of this report.

## 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 expect to certify the completion of the audit upon the completion of our work on the Council's VFM arrangements, which will be reported in our Annual Auditor's report in December 2021.

## Significant Matters

We did not encounter any significant difficulties or identify any significant matters arising during our audit.

# 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 will be 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;
- 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, as detailed in Appendix C. These outstanding items are included on page 4.

### Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff. As highlighted in our audit plan presented to the Governance Committee on 27 July 2021, the impact of the pandemic has meant that both your finance team and our audit team faced audit challenges again this year, such as remote accessing financial systems, video calling, verifying the completeness and accuracy of information provided remotely produced by the entity and access to key data from Council staff.

We have encountered some difficulty in obtaining supporting evidence requested for the audit of the draft statements. We acknowledge that the Council experienced difficulties due to the impact of an IT system upgrade at the start of the final audit period which severely restricted access to key information.

## 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.

We have revised our materiality levels due to the actual gross expenditure changing significantly from that at the planning stage, resulting in a review of the appropriateness of the materiality figure.

We detail in the table below our determination of materiality for South Ribble Borough Council

|   | Planning (£) | Final (£) | Qualitative factors considered   |
|---|--------------|-----------|--|
| Materiality for the financial statements    | 788,000      | 723,000   | This is equivalent to approximately 1.75% of the gross revenue expenditure.  |
| Performance materiality                     | 512,000      | 470,000   | The performance materiality has been set at 65% of financial statement materiality. This reflects a standard benchmark based on risk assessed knowledge of potential for errors arising. |
| Trivial matters                             | 39,000       | 36,000    | Triviality is set at 5% of materiality   |
| Materiality for senior officer remuneration | 20,000       | 20,000    | Senior officer remuneration due to the public interest in the disclosures.   |



## 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

#### Improper revenue recognition

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.

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:

- 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

Following receipt of draft financial statements on, we analysed the Council's material revenue and expenditure streams and identified that it was still appropriate to rebut those income streams based on the logic detailed in our audit plan.

As we do not consider this to be a significant risk for the Council, we did not undertake any specific work in this area other than our normal audit procedures.

Our testing in this area is ongoing. Performance of procedures to sample test income have not identified any matters to report to date.

#### Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. .

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.

We note that there are previous examples, as highlighted by Internal Audit, where management may have over-ridden controls relating to procurement and the appointment of officers.

We have also previously identified weak controls around authorisation of journal postings.

Our audit work included, but was not restricted to:

- evaluating the design effectiveness of management controls over journals
- analysing the journals listing and determine the criteria for selecting high risk unusual journals
- testing unusual journals made during the year and after the draft accounts are produced for appropriateness and corroboration
- gaining an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness (see detailed assessment of estimates on pages 11-14)
- evaluating the rationale for any changes in accounting policies, estimates or significant unusual transactions

Based on our work to date, we have not identified any issues in respect of management override of controls.

## 2. Financial Statements - Significant risks

### Risks identified in our Audit Plan

### Commentary

#### Valuation of land and buildings

The Council revalues its land and buildings on a rolling five-yearly basis. This valuation of £28,383m (2019-20: £28,711m) represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.

Additionally, management will need to ensure the carrying value in the Council financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used.

Investment Properties: All investment properties should be valued and reported at fair value under relevant accounting principles. Again, this valuation of £10,144m (2019-20: £10,055m) 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 therefore 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.

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
- evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.

Our work is ongoing in this area. To date our audit work has not identified any issues in respect of valuation of land and buildings and investment properties.

# 2. Financial Statements - Significant risks

## Risks identified in our Audit Plan

## Commentary

### Valuation of pension fund net liability

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

The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£39.960m in the Authority's balance sheet) 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). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation.

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. 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 Authority'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 Authority'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 Authority's pension fund valuation;
- assessed the accuracy and completeness of the information provided by the Authority 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; and
- 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.
- obtained assurances from the auditor of the Lancashire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

Our audit work to date has not identified any material issues in respect of the valuation of the Council's pension fund net liability.

We identified the following issues:

- The Council has identified that the estimate of employer pension contributions paid upfront for the period 2020-21 to 2022-23 was understated by £236k in comparison to the actual costs. The Council is in discussion with the Pension Fund regarding settlement of this additional amount. Our understanding is that this will be settled in 2021-22.
- The payment in advance of contributions had initially been accounted for as a prepayment on the balance sheet however, the Code requires that early payment of employer contributions should be accounted for as a reduction of the pension liability and this has been adjusted by management.
- The Council transferred staff from the South Ribble Community Leisure Trust on 1 April 2021 and has identified a liability in relation to the related share of the pension deficit (£0.831m). This has been disclosed as non-adjusting post-balance sheet event on the basis materiality.

We are also waiting for assurances from the auditor of the Local Government Pension scheme in order to conclude our work in this area. We understand this is likely to be towards the end of September.



## 2. Financial Statements - Significant risks

### Risks identified in our Audit Plan

### Commentary

#### Expenditure recognition– Governance Issues

During 2019-20 the Council completed investigations into potential governance matters. The work was completed by the Council's Internal Audit team and it identified a number of concerns around leadership, culture and adherence to policies and procedures. Other work completed by Internal Audit during the year, and subsequently reported to the Governance Committee, has highlighted further issues including financial procedures not being properly followed.

Given that the matters reported to the Governance Committee have included several examples where expenditure has been incurred without following proper procedures, there is an increased risk of misstatement in the financial statements.

We therefore identified the impact of the reported governance issues as an additional risk factor.

We have:

- Completed more transactional testing through the elevation of risk on applicable categories of expenditure and creditor balances
- Reviewed listings of payments to suppliers to ensure there are no unusual transactions
- Considered whether any of the findings from the investigation work may result in the use of our formal powers
- Evaluated the adequacy of the disclosures in the financial statements of any material uncertainty that the Council may have identified through the work completed by internal audit
- Discussed with management any potential implications for our audit report, particularly if we have been unable to obtain sufficient audit evidence

Our work in this area is ongoing. Based on our work to date, we have not identified any material issues in respect of the expenditure recognition.

## 2. Financial Statements – key judgements and estimates

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

| Significant judgement or estimate  | Summary of management's approach  | Audit Comments   | Assessment |
|--|---|--|------------|
| Valuations of Land and Building (28.383m) and Investment Properties (£10.144m) | <p>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> <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 2021 on a five yearly cyclical basis. 64% of total assets were revalued during 2020/21.</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 2021 and have concluded that no uplift is needed.</p> <p>Management's assessment of assets not revalued has identified no material change to the properties. This has been supported by a desktop review of assets by Sanderson Weatherall.</p> | <p>We have</p> <ul style="list-style-type: none"> <li>undertaken an assessment of management's experts</li> <li>reviewed the completeness and accuracy of the underlying information used to determine the estimate</li> <li>reviewed the impact of any changes to valuation method</li> <li>checked the consistency of estimate against near neighbours</li> <li>agreed the reasonableness of the increase/decrease in estimate</li> <li>reviewed the adequacy of disclosure of estimate in the financial statements.</li> </ul> <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>Our work is ongoing in this area. Based on our work to date, we expect to obtain sufficient and appropriate audit assurance to conclude that:</p> <ul style="list-style-type: none"> <li>the basis of the valuation of land and buildings and investment properties is appropriate</li> <li>the assumptions and processes used by management in determining the estimate of valuation of property are reasonable.</li> <li>the valuation of land and buildings disclosed in the financial statements is reasonable.</li> <li>management's approach to this significant estimate is appropriate</li> <li>management's assessment of assets not revalued is reasonable</li> </ul> | TBC        |

### Assessment

- [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 |               |           |            |               |      |          |   |                       |      |      |   |               |      |           |   |  |             |                       |   |  |             |                       |   |     |
|--|--|--|------------|---------------|-----------|------------|---------------|------|----------|---|-----------------------|------|------|---|---------------|------|-----------|---|--|-------------|-----------------------|---|--|-------------|-----------------------|---|-----|
| <b>Net pension liability – £39.960m</b>          | The Council's [total] net pension liability at 31 March 2021 is £39.960m comprising the Lancashire Pension Fund Local Government Scheme and £3.063m 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 2019. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.. | <p>We have:</p> <ul style="list-style-type: none"> <li>Undertaken an assessment of management's expert</li> <li>Reviewed and assessed the actuary's roll forward approach taken,</li> <li>Used an auditors expert (PwC) to assess the actuary and assumptions</li> </ul> <table border="1"> <thead> <tr> <th>Assumption</th><th>Actuary Value</th><th>PwC range</th><th>Assessment</th></tr> </thead> <tbody> <tr> <td>Discount rate</td><td>2.1%</td><td>2.1-2.2%</td><td>●</td></tr> <tr> <td>Pension increase rate</td><td>2.8%</td><td>2.8%</td><td>●</td></tr> <tr> <td>Salary growth</td><td>4.2%</td><td>3.95-4.2%</td><td>●</td></tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td><td>23.9 / 22.4</td><td>22.5-24.7 / 20.9-23.2</td><td>●</td></tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td><td>26.9 / 25.1</td><td>25.9-27.7 / 24.0-25.8</td><td>●</td></tr> </tbody> </table> <p>We have also reviewed:</p> <ul style="list-style-type: none"> <li>the completeness and accuracy of the underlying information used to determine the estimate</li> <li>Impact of any changes to valuation method</li> <li>Reasonableness of the Authority's share of LPS pension assets.</li> <li>Reasonableness of increase/decrease in estimate</li> <li>Adequacy of disclosure of estimate in the financial statements</li> </ul> <p>We are also waiting for assurances from the auditor of the Local Government Pension scheme in order to conclude our work in this area. We understand this is likely to be towards the end of September</p> | Assumption | Actuary Value | PwC range | Assessment | Discount rate | 2.1% | 2.1-2.2% | ● | Pension increase rate | 2.8% | 2.8% | ● | Salary growth | 4.2% | 3.95-4.2% | ● | Life expectancy – Males currently aged 45 / 65 | 23.9 / 22.4 | 22.5-24.7 / 20.9-23.2 | ● | Life expectancy – Females currently aged 45 / 65 | 26.9 / 25.1 | 25.9-27.7 / 24.0-25.8 | ● | TBC |
| Assumption                                       | Actuary Value  | PwC range  | Assessment |               |           |            |               |      |          |   |                       |      |      |   |               |      |           |   |  |             |                       |   |  |             |                       |   |     |
| Discount rate                                    | 2.1%   | 2.1-2.2%   | ●          |               |           |            |               |      |          |   |                       |      |      |   |               |      |           |   |  |             |                       |   |  |             |                       |   |     |
| Pension increase rate                            | 2.8%   | 2.8%   | ●          |               |           |            |               |      |          |   |                       |      |      |   |               |      |           |   |  |             |                       |   |  |             |                       |   |     |
| Salary growth                                    | 4.2%   | 3.95-4.2%  | ●          |               |           |            |               |      |          |   |                       |      |      |   |               |      |           |   |  |             |                       |   |  |             |                       |   |     |
| Life expectancy – Males currently aged 45 / 65   | 23.9 / 22.4  | 22.5-24.7 / 20.9-23.2  | ●          |               |           |            |               |      |          |   |                       |      |      |   |               |      |           |   |  |             |                       |   |  |             |                       |   |     |
| Life expectancy – Females currently aged 45 / 65 | 26.9 / 25.1  | 25.9-27.7 / 24.0-25.8  | ●          |               |           |            |               |      |          |   |                       |      |      |   |               |      |           |   |  |             |                       |   |  |             |                       |   |     |

## 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 NDR appeals - £2.081m                 | <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 2017-18, 2018-19, 2019-20 and 2020-21 of approximately 4.0 per cent.</p> <p>Due to re-apportionment following the pilot for increased local retention of Business Rates that was applicable for 2019-20 only, the provision has decreased by £0.6m in 2020-21.</p>  | <p>We have:</p> <ul style="list-style-type: none"> <li>reviewed the appropriateness of the underlying information used to determine the estimate</li> <li>reviewed the impact of any changes to valuation method</li> <li>checked the consistency of estimate against industry practice</li> <li>agreed the reasonableness of the increase in estimate</li> <li>reviewed the adequacy of disclosure of estimate in the financial statements.</li> </ul> <p>We have not identified any material issues in respect of the appeals provision.</p>   |            |
| Grants Income Recognition and Presentation- £32.261m | <p>The Council receives a number of grants and contributions and must determine whether the Council is acting as principal/ agent, and if there are any conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income.</p> <p>The Council is acting as the principal and credited the following grants, to the Comprehensive Income and Expenditure Statement:</p> <ul style="list-style-type: none"> <li>Covid-19 funding</li> <li>Benefits related grants</li> <li>Business rates reliefs</li> <li>Developer contributions</li> </ul> <p>The Council is acting as an agent and does not recognise grant income in respect of £35.083m of Covid-19 funding to support local businesses.</p> <p>The Council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver.</p> | <p>Our audit work included consideration of:</p> <ul style="list-style-type: none"> <li>whether the Council is acting as the principal or agent which would determine whether the authority recognises the grant at all</li> <li>Completeness and accuracy of the underlying information used to determine whether there are conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income</li> <li>Impact for grants received, whether the grant is specific or non specific grant (or whether it is a capital grant) – which impacts on where the grant is presented in the CIES.</li> <li>Adequacy of disclosure of judgement in the financial statements</li> </ul> <p>Our work in this area is ongoing. We have identified that the accounting treatment of Additional Restrictions Grant funding was not compliant with the Code and this has been adjusted to recognise the income and expenditure in the accounts.</p> |            |

### Assessment

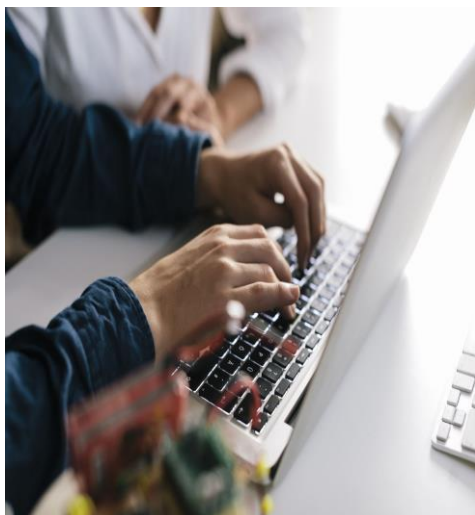
- **Dark Purple** We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- **Blue** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we 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 - 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 incidents in the period and no other issues have been identified during the course of our audit procedures.   |
| 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, which is appended to this report.<br>Specific representations have been requested from management in respect of the significant assumptions used in making accounting estimates for the Business rates appeal provision, consideration of assets not subject to external valuation during the year and assessment of the pension fund deficit in relation to South Ribble Community Leisure Trust. |

## 2. Financial Statements - other communication requirements



| Issue   | Commentary   |
|---|--|
| 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.<br>Our review found no material omissions in the financial statements.   |
| Audit evidence and explanations/ significant difficulties | We have encountered some difficulty in obtaining supporting evidence requested for the audit of the draft statements. We acknowledge that the Council experienced difficulties due to the impact of an IT system upgrade at the start of the final audit period which severely restricted access to key information. |

## 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. 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"> <li>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</li> <li>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.</li> </ul> <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"> <li>the nature of the Council and the environment in which it operates</li> <li>the Council's financial reporting framework</li> <li>the Council's system of internal control for identifying events or conditions relevant to going concern</li> <li>management's going concern assessment.</li> </ul> <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"> <li>a material uncertainty related to going concern has not been identified</li> <li>management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.</li> </ul> |

## 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 C</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"> <li>• 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,</li> <li>• if we have applied any of our statutory powers or duties.</li> <li>• where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es.</li> </ul> <p>We have nothing to report on these matters.</p> <p>As part of our VFM procedures, we are reviewing the Council's progress in responding to the areas identified in the section 24 recommendation issued in December 2020 and we will report in full in the Auditor's Annual Report.</p> |



# 2. Financial Statements - other responsibilities under the Code

| Issue  | Commentary   |
|--|--|
| <b>Specified procedures for Whole of Government Accounts</b> | 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.<br>However, the Council is below the threshold (as set out in the Group Instructions) and therefore no further work is required. |
| <b>Certification of the closure of the audit</b>             | We intend to delay the certification of the closure of the 2020/21 audit of South Ribble Borough Council in the audit report, as included in Appendix C, due to VFM work being incomplete.   |

# 3. Value for Money arrangements

## Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria.
- Auditors undertaking sufficient analysis on the Council's VFM arrangements to arrive at far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require 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 not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix E to this report. We expect to issue our Auditor's Annual Report by 30 December 2021. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

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. In our audit plan we identified the risks set out in the table below. Our work on these risks is underway and an update is set out below.

| Risk of significant weakness  | Work performed to date  |
|---|---|
| <p><b>Deficiencies in the control environment</b></p> <p>The Council has identified deficiencies in its control environment which were investigated by Internal Audit. In the 2019-20, we reported that management are aware of the issues and has put plans in place to address the issues.</p> <p>We will assess the Council's progress in strengthening the control environment and actions taken to ensure compliance with policies and procedures.</p>   | <p>As part of our risk assessment, we have completed a review of key documentation relevant to these risks, including Council and Committee papers and reports from Internal Audit.</p> <p>We have engaged colleagues from our Public Sector Advisory team to undertake a focussed review and requested additional information from management.</p> <p>We have undertaken a review of the overall governance arrangements in place at the Council in accordance with the VFM evaluation criteria although this work is ongoing.</p> |
| <p><b>Monitoring of service performance</b></p> <p>In the 2019-20, we reported there have been performance concerns raised in several areas by the Council and Internal Audit, as well as weaknesses identified in performance monitoring and reporting.</p> <p>We will assess how the Council is addressing the weaknesses identified and review actions that have been taken to ensure appropriate levels of service provision, including how progress is being monitored and evaluating any evidence of improvement.</p> | <p>At this stage, we have identified no material weaknesses to bring to your attention. However our work is ongoing and we will report more fully in our Auditor's Annual Report.</p>   |

# 4. Other statutory powers and duties

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

| Issue  | Commentary   |
|--|--|
| <b>Recommendation made under section 24 of the Local Audit and Accountability Act 2014 ('the Act')</b> | <p>In December 2020, we concluded that it was appropriate for us to use our powers to make a recommendation under section 24 of The Act due to the limited progress in improving its governance or performance management throughout this period.</p> <p><b>Recommendation:</b></p> <p>The Council needs to make demonstrable progress in relation:</p> <ul style="list-style-type: none"><li>Improving service performance</li><li>Strengthening the financial control environment of the Council</li><li>Securing appropriate working relationships between officers and members</li><li>Appointing a suitable experienced and senior S151 officer.</li></ul> <p>As part of our VFM procedures, we are reviewing the Council’s progress in responding to the areas identified and we will report in full in the Auditor’s Annual Report.</p> |

## 5. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the 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 B

### 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 [Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

# 5. 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, 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 | 13,700 | 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 £13,700 in comparison to the total fee for the audit of £70,791 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 , 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.

# Appendices

# A. 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 2021.

| Detail  | Comprehensive Income and Expenditure Statement £'000 | Statement of Financial Position £' 000             | Impact on total net expenditure £'000 |
|---|--|--|---------------------------------------|
| Reclassification of Housing Benefit overpayments from Government Grants to Fees, charges and other service income | Income £189<br>Income (£189)                         | -  | -                                     |
| Additional Restrictions Grant   | Other service expenses £432<br>Income (£432)         |  |                                       |
| Employer pension contributions adjustment to remove prepayment balance and reduce net pension liability           | -  | Pension liabilities £2,481<br>Prepayments (£2,481) | -                                     |
| <b>Overall impact</b>   | <b>£0</b>  | <b>£0</b>  | <b>£0</b>                             |

# A. Audit Adjustments

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### Impact of unadjusted misstatements

There are no unadjusted misstatements to report based on our audit work to date.

### Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2019/20 financial statements

| Detail         | Comprehensive<br>Income and Expenditure<br>Statement £'000 | Statement of Financial<br>Position £' 000 | Impact on total net<br>expenditure £'000 | Reason for<br>not adjusting |
|----------------|--|---|--|-----------------------------|
| Debtors        | (166)  | (166)                                     |  | Extrapolated<br>error       |
| Overall impact | £(166)   | £(166)                                    |  |                             |

# A. 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

We have not identified any audit adjustments.

## Misclassification and disclosure changes

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

| Disclosure   | Details  | Adjusted? |
|--|--|-----------|
| Prior year comparatives                                | The Council made some amendments to the prior year comparative figures which had been brought forward into the draft accounts inaccurately.                                      | ✓         |
| Accounts consistency                                   | Updates made to references in the accounts and minor amendments to ensure consistency.   | ✓         |
| Remuneration disclosures                               | The Council made some amendments to the disclosures in the Officers Remuneration note. We identified some inaccuracies in the disclosures of exit packages paid during the year. | ✓         |
| Provisions   | The Council made some amendments to provisions note to align the figures disclosed in the movement in provisions with the correct narrative description.                         | ✓         |
| Grants disclosures                                     | The Council added further information to the explanation of the accounting and recognition of funds received from Covid-19 grants  | ✓         |
| Events after the reporting period                      | The Council added a disclosure in respect of the liability for a share of pension deficit in respect of staff transferred from the Leisure Trust on 1 April 2021                 | ✓         |
| Reclassification of grants and fees and charges income | The Council amended grants and fees and charges income in respect transactions which had been incorrectly classified.  | ✓         |
| Audit fees   | Updates made to disclosure the full external audit costs in the accounts.  | ✓         |



# B. Fees

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

The fees reconcile to the financial statements.

| Audit fees                       | Proposed fee | Final fee |
|----------------------------------|--------------|-----------|
| Council Audit                    | £70,791      | tbc       |
| Total audit fees (excluding VAT) | £70,791      | tbc       |

| Non-audit fees for other services      | Proposed fee | Final fee |
|--|--------------|-----------|
| Certification of Housing Benefit Claim | £13,700      | tbc       |
| Total non-audit fees (excluding VAT)   | £13,700      | tbc       |

# C. 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') for the year ended 31 March 2021, which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund 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 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2021 and of its 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 2020/21; 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 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 Chief Finance Officer'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 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 to cease to continue as a going concern.

# C. Audit opinion

In our evaluation of the Chief Finance Officer'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 2020/21 that the Authority'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 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 2020) 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 Authority and the Authority's disclosures over the going concern period.

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 ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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

The responsibilities of the Chief Finance Officer with respect to going concern are described in the 'Responsibilities of the Authority, the Chief Finance Officer and Those Charged with Governance for the financial statements' section of this report.

## Other information

The Chief Finance Officer is responsible for the 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. 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.

In connection with our audit of the financial statements, 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 or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

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 and our knowledge of the Authority, 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.

# C. Audit opinion

## Responsibilities of the Authority, the Chief Finance Officer and Those Charged with Governance for the financial statements

As explained in the Statement of Responsibilities set out on page 42, 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. In this authority, that officer is the Chief Finance Officer. The Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, for being satisfied that they give a true and fair view, and for such internal control as the Chief Finance Officer 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 Chief Finance Officer is responsible for assessing the Authority'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 there is an intention by government that the services provided by the Authority will no longer be provided.

The Governance Committee is Those Charged with Governance. Those Charged with Governance are responsible for overseeing the Authority's financial reporting process.

## 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.

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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

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 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 (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Local Government Act 2003, the Local Government Act 1972, the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992) and the Local Government Finance Act 2012.
- We enquired of senior officers and the Governance Committee, concerning the 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 senior officers, 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's financial statements to material misstatement, including how fraud might occur, by evaluating officers' 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.

# C. Audit opinion

- Our audit procedures involved:
  - evaluation of the design effectiveness of controls that the Chief Finance Officer has in place to prevent and detect fraud;
  - journal entry testing, with a focus manual journals including those postings with a net impact on the income and expenditure;
  - challenging assumptions and judgements made by management in its significant accounting estimates in respect of land and buildings, investment property and defined benefit pensions liability valuations;
  - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from 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.
- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to land and buildings, investment property and defined benefit pensions liability valuations.
- Assessment of the appropriateness of the collective competence and capabilities of the 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
  - understanding of the legal and regulatory requirements specific to the Authority 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'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's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

## **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 2021.

Our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is not yet complete. The outcome of our work will be reported in our commentary on the Authority's arrangements in our Auditor's Annual Report. If we identify any significant weaknesses in these arrangements, these will be reported by exception in a further auditor's report. We are satisfied that this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2021.

### **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, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

# C. Audit opinion

## 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 April 2021. 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 – Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for South Ribble Borough Council for the year ended 31 March 2021 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources and issued our Auditor's Annual Report.

## 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 43 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.

# D. Management Letter of Representation

## South Ribble Borough Council Financial Statements for the year ended 31 March 2021

This representation letter is provided in connection with the audit of the financial statements of South Ribble Borough for the year ended 31 March 2021 for the purpose of expressing an opinion as to whether the Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards, and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 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 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 2020/21 ("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 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 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 valuations of land and building assets, valuations of investment properties and valuation of defined benefit pension net liability. 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 financial statements:
  - a. there are no unrecorded liabilities, actual or contingent
  - b. none of the assets of the 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 Council's financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
- 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.



# D. Management Letter of Representation

- x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The Council's financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
- 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. We have considered the pension fund deficit with regard to South Ribble Community Leisure Limited. The information we currently have confirms in our view that this should be treated as a non-adjusting post- balance sheet event.
- xiii. We have considered the estimated liability with regard to Business rate appeals and consider that it has been made appropriately.
- xiv. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- xv. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xvi. We have updated our going concern assessment and cashflow forecasts in light of the Covid-19 pandemic. We continue to believe that the 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 :
- the nature of the Council means that, notwithstanding any intention to liquidate the Council or cease its 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
  - the financial reporting framework permits the entity to prepare its financial statements on the basis of the presumption set out under a) above; and
  - the 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 Council's ability to continue as a going concern need to be made in the financial statements
- xvii. 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**
- xviii. We have provided you with:
- access to all information of which we are aware that is relevant to the preparation of the Council's financial statements such as records, documentation and other matters;
  - additional information that you have requested from us for the purpose of your audit; and
  - access to persons within the Council via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. from whom you determined it necessary to obtain audit evidence.
- xix. We have communicated to you all deficiencies in internal control of which management is aware.
- xx. All transactions have been recorded in the accounting records and are reflected in the financial statements. This includes the recognition policy and accounting for funds received through Covid-19 support measures where we consider that the Council has acted as agent on behalf of the grant funder.
- xxi. 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.
- xxii. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:
- management;
  - employees who have significant roles in internal control; or
  - 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.



# D. Management Letter of Representation

- 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 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**

- xxvii. 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**

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

## **Approval**

- xxix. The approval of this letter of representation was minuted by the Council's Governance Committee at its meeting on 28 September 2021

# E. Audit letter in respect of delayed VFM work

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

29 September 2021

Dear Chair

Yours faithfully

*Georgia Jones*

Georgia Jones  
Director

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies we are required to issue our Auditor's Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their 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 could 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 now expect to publish our report no later than 30 December 2021.

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



## Grant Thornton

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