

# Governance Committee

Tuesday, 27th September, 2022, 6.00 pm

Shield 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, 26 July 2022 of Governance Committee**

(Pages 3 - 8)

Minutes of the last meeting held Tuesday, 26 July 2022 are attached to be agreed as a correct record for signing by the Chair.

**4 Audit Progress Report and Sector Update**

(Pages 9 - 24)

Report of the External Auditor attached.

**5 Internal Audit Interim Report as at 31st August 2022**

(Pages 25 - 48)

Report of the Service Lead (Audit and Risk) attached.

**6 Internal Audit Plan October 22- March 23**

(Pages 49 - 54)

Report of the Service Lead (Audit and Risk) attached.

Gary Hall  
Chief Executive

Electronic agendas sent to Members of the Governance Committee Councillors Ian Watkinson (Chair), Colin Sharples (Vice-Chair), Damian Bretherton, Alan Ogilvie, David Shaw, Margaret Smith 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, 29 November 2022 - Shield Room, Civic Centre, West Paddock,  
Leyland PR25 1DH

<b>Minutes of</b>	<b>Governance Committee</b>
<b>Meeting date</b>	<b>Tuesday, 26 July 2022</b>
<b>Committee members present:</b>	Councillors Colin Sharples (Vice-Chair), Damian Bretherton, Alan Ogilvie, David Shaw, Margaret Smith and Kath Unsworth
<b>Officers present:</b>	Chris Moister (Director of Governance), Louise Mattinson (Director of Finance and Section 151 Officer), Steve Kenyon (Senior Management Accountant), Tony Furber (Principal Financial Accountant) and Coral Astbury (Democratic and Member Services Officer)
<b>Other attendees:</b>	Councillors Paul Foster, Keith Martin and Phil Smith and Jane Bell (attended virtually) and Mick Titherington (attended virtually)
<b>External Auditor:</b>	Matt Derrick (Grant Thornton PLC)
<b>Public:</b>	0

A video recording of the public session of this meeting is available to view on [YouTube here](#)

## 10 Apologies for absence

Apologies were received from Councillor Ian Watkinson (Chair). Councillor Colin Sharples (Vice-Chair) chaired the meeting.

## 11 Declarations of Interest

There were no declarations of interest.

## 12 Minutes of meeting Tuesday, 24 May 2022 of Governance Committee

Councillor Smith referred to an action on the previous minutes, regarding information on a complaint referred to the Local Government Ombudsman and asked if the action had been completed. The Director of Governance apologised and agreed to provide the information after the meeting.

### **Resolved: (5:0:1)**

That the minutes are agreed as a correct record for signing by the Chair.

## 13 Audit Progress report and Sector Update

The Council's External Auditors, Grant Thornton PLC, presented a report that provided members with an update on audit progress and a general sector update.

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The External Auditor explained that the detailed audit plan had been issued in May. The External Auditor's would be preparing to start the final audit Mid-August, with a view to reporting back to members by the deadline of 30 November, alongside the opinion on value for money.

In response to a member enquiry, the External Auditor advised that no further issues had been identified which could impact the audit. The Auditors would be requesting the necessary evidence to start the audit in the next few weeks. A workshop had been held with Finance Officers in May to try and alleviate some of the issues experienced with the quality of evidence for audit.

Members asked the External Auditor his view on having independent persons attending Governance Committee. In response, the External Auditor explained that an independent member would provide a different perspective and skill set, more information could be given to members if requested.

## **Resolved: (Unanimously)**

That the report be noted.

## **14 Treasury Management - Annual Report (2021/22) & Quarter 1 Monitoring (2022/23)**

The committee considered a report of the Director of Finance that sought to present the outturn for Treasury Management activity in the financial year 2021/22 and monitoring information in respect of the first quarter of 2022/23.

The Deputy Director of Finance explained that overall, 2021/22 mirrored 2020/21 with high levels of cash balances due to COVID grant funding. The authority had seen an average daily balance of £58 million which was increased from last year. Although the authority had more money there was less yield on investments as other authorities did not need to borrow. The authority had gained a return of £87,000 which was down from the previous year. In relation to capital financing, one project required £1.3 million which was financed internally without the need for external borrowing.

Members noted that interest rates are increasing, with forecasts suggesting it will reach 2.75% by 2023. The average investment balance over the first quarter of the financial year was £54.017m, on which interest of £72k (0.54%) had been earned.

The Deputy Director of Finance explained that no third party limits had been breached and a formal report would be presented in November.

Members thanked the Officers for a comprehensive report.

Members sought clarification on who makes the decision to invest, in response the Deputy Director of Finance explained that the decision would be taken by Treasury Management Staff within the confines of prudential indicators. The decision would be made based on advice received daily from brokers and external advisors.

In response to a member enquiry, the Deputy Director of Finance explained that a second Capital Outturn report had been presented to Cabinet which provided further

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detail on the Capital Programmes which had been delayed or moved into future financial years.

## **Resolved: (Unanimously)**

That the report be noted.

## **15 Draft Core Financial Statements 2021/22**

The committee considered a report of the Director of Finance and Section 151 Officer that presented the Draft Core Financial Statements for 2021/22, together with key supporting notes, and to advise Members in respect of the statutory requirements for signature, audit, inspection and publication of the statement.

In response to a member enquiry, the Principal Financial Accountant advised members that the movement in reserves statement on page 52 detailed where the earmarked funds were held.

The Principal Financial Accountant referred to the balance sheet and explained there had been a significant movement against the net pension liability. The long term liability had gone from £37.3 million to £28.7 million.

Members sought clarification on the figure of £1.8 million which had been included for city deal and asked for the reasoning behind it. The Principal Financial Accountant explained he would provide this information outside of the meeting.

## **Resolved: (Unanimously)**

That the report be noted.

## **16 CIPFA Resilience Index 2020/21**

The Interim Deputy Director of Finance presented a report that provided information on the latest CIPFA Resilience Index (2020/21) in comparison to the previous published index (2019/20).

The Interim Deputy Director of Finance explained the purpose of the Index was to provide assurance as to the financial health of the organization by taking a number of key indicators and comparing them against comparative groups. The assessment would also be provided to the External Auditor's to assist them with their work on Value for Money.

In terms of financial sustainability, the authority was in a strong position. South Ribble was paying low interest rates, which was expected as the authority has no long term debt. The Interim Deputy Director of Finance explained that some projects within the capital programme would need external funding but each case would be judged upon its own merits and funded in a way that is best for the project.

Members received the report positively and commented on the need to be careful when borrowing funds in order to remain in a strong position. The Interim Deputy Director of Finance reassured members that each case would be assessed on its own merits taking all factors into consideration.

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## **Resolved: (Unanimously)**

That the report be noted.

## **17 Strategic Risk Register**

The Director of Governance presented a report of the Deputy Chief Executive that sought to provide Members with an updated Strategic Risk Register, which includes 16 strategic risks to the Council, including actions in progress as well as new actions planned to further mitigate identified risks.

The Director of Governance explained the purpose of the report is to provide information and assurance to members that the risk register was a living document and reviewed regularly and updated. Three risks had been updated with R1, R2 and R8 seeing a reduction in inherent risk and two risks; R6 and R16 had seen an increase in risk score.

Members asked what was being done to encourage individuals to come and work for the authority. In response, the Director of Governance explained that Officers were looking at retention of staff, staff retention within the market was volatile and private sector were offering greater financial opportunities. The authority had developed a salary structure which is job evaluated in accordance with policies and processes which would be difficult to depart from. Internally, a People Strategy has just been developed and launched which focuses on ensuring current staff feel valued and are given development opportunities.

In response to a member enquiry on R7 Cyber Security, the Director of Governance explained that there are a programme of activities planned, including independently undertaken penetration testing on IT systems to ensure robustness.

Members asked if it would be possible to see figures on staff absence due to sickness. The Director of Governance advised he would provide this information outside of the meeting.

Members stated they would like to see an action on the Risk Register in relation to Climate Change and Air Quality. The Director of Governance explained that he would take the comment to the relevant Director for further consideration.

## **Resolved: (Unanimously)**

That the report be noted.

## **18 Centre for Governance and Public Scrutiny - Review**

The committee considered a report of the Director of Governance and Monitoring Officer that sought to present the report prepared by the Centre for Governance and Public Scrutiny (CfG&PS) following an independent review of the changes the Council has implemented to its governance environment.

The Director of Governance explained that the CfG&PS recommended a member workshop to be held to enable members to give input into the recommendations and to gain background knowledge into the reasoning behind them. Any

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recommendations to arise out of the workshop would be owned by the Council and it is important that members take an active role.

Members agreed with the recommendations in relation to public participation and stated that public participation should happen prior to the debate by members and decisions being taken.

Members asked if any work to refresh the joint protocol on Governance Committee and Scrutiny Committee was planned. In response, the Director of Governance explained the workshop would review the proposed recommendations from CfG&PS and members would be given an opportunity to feed into the recommendations and agree any appropriate actions.

Members referred to the report in which concern was raised about the role of committee chairs and asked for further information on what committee the CfG&PS was referring too and what discussion ventured outside the remit of the committee. The Director of Governance confirmed he would request the information from CfG&PS.

## **Resolved: (Unanimously)**

1. Members of the Committee received the recommendations and findings in the report and note the further presentation to members through a workshop facilitated by the CfG&PS.
  
2. That the membership of the workshop be as follows:
  - a. Leader of the Council
  - b. Deputy Leader of the Council
  - c. Leader of the Opposition
  - d. Deputy Leader of the Opposition
  - e. Leader of the Liberal Democrats
  - f. Mayor
  
3. It is agreed that following the workshop, a report be taken to full council to review and approve the recommendations, actions and proposed responses to further implementation.

Chair

Date

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# South Ribble Borough Council Audit Progress Report and Sector Update

Year ending 31 March 2022

September 2022



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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 Authority 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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# Introduction

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This paper provides the Governance Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Governance Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications <https://www.grantthornton.co.uk/en/services/public-sector-services/>

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

# Progress at September 2022

## Financial Statements Audit

We undertook our initial planning for the 2021/22 audit in March and April 2022.

In May we issued a detailed audit plan, setting out our proposed approach to the audit of the Authority's 2021/22 financial statements.

The draft Statement of Accounts was published 4 August 2022 and we have begun our year-end audit work including substantive testing of transactions and balances and our audit procedures in response to the significant risks identified in our Audit Plan.

Management has undertaken an assessment of the transactions and balances arising in South Ribble Leisure Ltd for the year ending 31 March 2022, and determined that the subsidiary company is material to the financial performance and position of the Council.

Management will prepare consolidated financial statements which incorporate the transactions and balances of the subsidiary company in accordance with the CIPFA Code.

We have issued an update to our Audit Plan previously published in May 2022 which includes our risk assessment and audit procedures required to support our audit opinion on the Council's consolidated financial statements.

We will report our work in the Audit Findings Report and aim to give our opinion on the Statement of Accounts by 30 November 2022.

## Value for Money

The new Code of Audit Practice (the "Code") came into force on 1 April 2020 for audit years 2020/21 and onwards. The most significant change under the new Code was the introduction of an Auditor's Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations, if required.

The new approach is more complex, more involved and is planned to make more impact.

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies auditors 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. The extended deadline for the issue of the Auditor's Annual Report is now no more than three months after the date of the opinion on the financial statements. We anticipate issuing our Auditor's Annual Report in November 2022.

# Audit Deliverables

## 2021/22 Deliverables

### Audit Plan

We are required to issue a detailed audit plan to the Governance Committee setting out our proposed approach in order to give an opinion on the Authority's 2021/22 financial statements and to report on the Authority's value for money arrangements in the Auditor's Annual Report

**Planned Date**

May 2022

**Status**

Completed

### Audit Findings Report

The Audit Findings Report will be reported to the November Audit Committee.

November 2022

Not yet due

### Auditors Report

This includes the opinion on your financial statements.

November 2022

Not yet due

### Auditor's Annual Report

This report communicates the key outputs of the audit, including our commentary on the Authority's value for money arrangements.

November 2022

Not yet due

## 2021/22 Audit-related Deliverables

### Housing Benefit Subsidy – certification

This is the report we submit to Department of Work and Pensions based upon the mandated agreed upon procedures we are required to perform.

**Planned Date**

December 2022

**Status**

Not yet due

# Sector Update

Authorities continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local  
government



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# External audit plan - addendum

**Year ending 31 March 2022**

South Ribble Borough Council  
27 September 2022



# Contents



## Your key Grant Thornton team members are:

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# Introduction and headlines

## Purpose

This document provides an addendum to our Audit Plan issued in May 2022 and gives an overview of the planned scope and timing of the statutory audit of South Ribble Borough Council ('the Council') for those charged with governance.

## Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the *agreed in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of the Council. We draw your attention to both of these documents.*

## Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council's financial statements that have been prepared by management with the oversight of those charged with governance (the Governance committee); and we consider whether there are sufficient arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently to maximise the outcomes that can be achieved.

The audit of the financial statements does not relieve management or the Governance Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

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

## Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management override of controls
- Valuation of land and buildings
- Valuation of net pension fund liability

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

## Group Audit

The Council established a wholly-owned subsidiary, South Ribble Leisure Ltd in May 2021 and this will require consolidated accounts to be produced to report the group transactions and balances. The draft Statement of Accounts published 4 August 2022 do not include consolidated financial statements and we have requested management produce an updated version for audit.

## Materiality

We have determined planning materiality to be £0.780m (PY £0.788m) for the Council, which equates to 1.9% of your prior year gross expenditure for the year. As part of our risk assessment, we have considered the impact of unadjusted prior period errors. We do not consider a reduction in performance materiality is required for 2021-22. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.039m (PY £0.039m).

## Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money have identified the following risks of significant weakness:

- Deficiencies in the control environment

## Audit logistics

Our audit of the final accounts will take place in July and August 2022. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report. Our audit approach is detailed in Appendix A.

Our fee for the audit will be £65,296 (PY: £105,791) for the Council, subject to the Council delivering a good set of financial statements and working papers.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) 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..

# Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

The Council will need to complete an assessment of the group boundary for preparing consolidated financial statements however, we expect to perform audit procedures on the material transactions and balances within the subsidiary company.

Component	Individually Significant?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
South Ribble Borough Council	Yes		Management override of controls Valuation of land and buildings Valuation of net pension fund liability	Full scope audit performed by Grant Thornton UK LLP
South Ribble Leisure Ltd	No		Management override of controls Valuation of net pension fund liability	Specific scope procedures on leisure income and expenditure to be performed by the audit team.

## Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to significant risks of material misstatement of the group financial statements
- Analytical procedures at group level

# Significant risks identified

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.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions – rebutted	Group accounts and Council	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including South Ribble Borough Council mean that all forms of fraud are seen as unacceptable</li> </ul>	As we do not consider this to be a significant risk for the Council we will not be undertaking any specific work in this area other than our normal audit procedures.
Management over-ride of controls	Group accounts and Council	<p>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. .</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which is one of the most significant assessed risks of material misstatement.</p> <p>We 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.</p> <p>We have also previously identified weak controls around authorisation of journal postings.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate the design effectiveness of management controls over journals</li> <li>• analyse the journals listing and determine the criteria for selecting high risk unusual journals</li> <li>• test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration</li> <li>• gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence</li> <li>• evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions</li> </ul>

# Significant risks identified - continued

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	Group accounts and Council	<p>The Council'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</p> <p>The pension fund net liability of £39,960m (2020-21) is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• update our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls;</li> <li>• evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;</li> <li>• assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;</li> <li>• assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability;</li> <li>• test 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;</li> <li>• undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and</li> <li>• obtain assurances from the auditor of Lancashire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.</li> </ul>

# Significant risks identified - continued

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings	Council only	<p>The Council revalues its land and buildings on a rolling five-yearly basis. This valuation of £28.383m (2020-21) 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.</p> <p>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.</p> <p>Investment Properties: All investment properties should be valued and reported at fair value under relevant accounting principles. Again, this valuation of £10.144m (2020-21) 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.</p> <p>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.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work</li> <li>• evaluate the competence, capabilities and objectivity of the valuation expert</li> <li>• discuss with the valuer the basis on which the valuation was carried out</li> <li>• challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding</li> <li>• test revaluations made during the year to see if they had been input correctly into the Council's asset register</li> <li>• evaluating the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.</li> <li>• Review progress with the recommendations reported in the prior year Audit Findings Report</li> </ul>



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Report of	Meeting	Date
Service Lead Audit and Risk	Governance Committee	Tuesday, 27 September 2022

## Internal Audit Interim Report as at 31st August 2022

Is this report confidential?	No
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### Purpose of the Report

1. A The purpose of this report is to advise members of the work undertaken in respect of the Internal Audit Plan from April 2022 to August 2022 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 priorities

3. The report relates to the following corporate priorities:

<b>An exemplary council</b>	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 the six months April to September 2022 was approved by this Committee at its meeting in April 2021 and provides for 137 days of audit work.

### Internal Audit Reports

5. **Appendix A** provides a snapshot of the overall progress made in relation to the six month 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.

# Agenda Item 5

6. The table below highlights the main pieces of work undertaken during the period together with any issues identified where applicable:

Name of Review	Assurance Rating	Comments
Annual Governance Statement (AGS)	Not applicable	Proactive input was provided to inform the AGS Action plan presented to the Governance Committee in May 2022.
National Fraud Initiative	Not applicable	<p>Internal Audit are currently working with data holders to meet the Cabinet Office data requirements for the forthcoming main NFI 2022/23. We need to ensure that the Council can supply all mandatory datasets by the deadline (including payroll, taxi licence, trade creditors, housing waiting list, Council Tax Reduction Scheme).</p> <p>Also, we are working with officers to ensure that any outstanding work from the previous exercises is concluded. This includes, Council Tax SPD.</p>
COVID support work / Business Grants Pre and Post Payment Assurance/ Test and Trace	Not applicable	<p>Internal Audit participated in the BEIS post payment assurance verification process; providing the required evidence to support the payments made are compliant with the grant eligibility criteria.</p> <p>In addition, assurance was provided in relation the Containing Outbreak Management Fund and Test and Trace Support Payment grant determination sign-off.</p>
Workshop Record Management	Adequate	<p>There was clear evidence of oversight and management of the following key areas:</p> <ul style="list-style-type: none"> <li>• Maintenance records</li> <li>• Goods and service are procured in compliance with the manufacturers requirements to preserve warranties;</li> <li>• Best value is being achieved where applicable.</li> </ul> <p>However, our work has identified that there is a lack of active management of the contract with FCC. There are two areas whereby the control environment could be strengthened:</p> <ul style="list-style-type: none"> <li>• Ensuring that the Consumer Price Index is applied on an annual basis;</li> </ul>

# Agenda Item 5

		<ul style="list-style-type: none"> <li>Performance monitoring between the Council and FCC. Whilst monthly monitoring meetings were held on a regular basis prior to COVID, the arrangements have not been re-established since.</li> </ul> <p>A dedicated officer is now in post and all actions arising from this review have been agreed for implementation.</p>
Utilities Management	Limited	A full copy of this report is included at Appendix B
Safeguarding	Substantial	Our work has established that the Council has a good level of arrangements and that established controls are operating effectively.
Community Hub Boost Fund	Not applicable	<p>Internal Audit provided advice/guidance relating to setting up a new process for administering the successful Community Hub Boost Fund applications.</p> <p>Additionally, the Risk Team is participating in the working group to go through the successful applications to consider risks and build in appropriate controls to protect the scheme funds.</p>

## Assurance Ratings Key

Assurance Rating	Definition
<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

- 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.

## Internal Audit Performance

- Appendix C** provides information on Internal Audit performance as at 30<sup>th</sup> June 2022. The majority of the indicators are on target as at the end of June with only the percentage of agreed actions implemented by management for SRBC being lower than the agreed target. Internal Audit have reviewed the outstanding actions and have concluded that many of these are currently in progress but are not at the stage of being fully implemented.

# Agenda Item 5

## Internal Audit Developments

9. Internal Audit have recently successfully recruited to an Audit Trainee post. Access to formal qualifications, alongside structured mentoring/in-service training will mean that there is an established plan to develop the role into a fully-fledged Auditor who is able to work independently and subsequently add value to both the Service and the organisation.

## Climate change and air quality

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

## Equality and diversity

11. The material presented and discussed in this report has no direct implications on equality and diversity.

## Risk

12. Risks are outlined through the body of the report.

## Comments of the Statutory Finance Officer

13. No comment

## Comments of the Monitoring Officer

14. No comment.

## There are no background papers to this report

## Appendices

Appendix A - Internal Audit Plan April 22 to September 22  
Appendix B – Internal Audit Review of Utilities Management  
Appendix C - Internal Audit Performance Indicators as at 30<sup>th</sup> June 2022.

## 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	16.9.22

# Agenda Item 5

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<b>Internal Audit Plan - April 2022 to September 2022</b>	<b>QTR</b>	<b>Status of Review</b>	<b>Assurance Rating</b>
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<b>CORPORATE</b>			
Annual Governance Statement	1	Complete	Not applicable
Anti-Fraud & Corruption	ALL	On-going over the 12 months	Not applicable
COVID - Grant assurance	ALL	On-going over the 12 months	Not applicable
<b>CUSTOMER AND DIGITAL</b>			
<b>Customer Services</b>			
Project Support	ALL	On-going over the 12 months	Not applicable
<b>ICT</b>			
Project support	ALL	On-going over 12 months	Not applicable
<b>Neighbourhoods</b>			
Workshop records management	1	Complete	Adequate
<b>COMMERCIAL AND ASSETS</b>			
Utilities management	1	Complete	Limited
Project support	ALL	On-going over 12 months	Not applicable
<b>COMMUNITITES</b>			
Safeguarding	1	Complete	Substantial
Community Hubs / Boost Fund	1	Pro active support provided	Not applicable
<b>CHANGE AND DELIVERY</b>			
Absence Management	2	In progress	
<b>GOVERNANCE</b>			
Code of Conduct	2	In progress	
<b>SHARED FINANCIAL SERVICES</b>			
VAT	2	In progress	
<b>GENERAL AREAS</b>			
Post Audit Reviews	ALL	On-going over 12 months	Not applicable
Contingency / Irregularities	ALL	On-going over 12 months	Not applicable
PSIAS – Peer Review	ALL	On-going over 12 months	Not applicable
Residual Work from 21.22	1	Complete	
Committee Reporting	All	On-going over 12 months	Not applicable

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# FINAL Internal Audit Report

## Review of Utilities Management (SRBC) 2022/2023

Audit Assurance: Limited  
Auditor: L Roberts  
Date Issued: 08.09.2022



Cert No: 20128  
ISO 9001



WORKING TOGETHER

<b>Reason for the Audit &amp; Scope</b>	
1	<p>Utilities including electricity, gas and water are essential services and are a significant and increasing cost to the Council. It is important that utility services are purchased in accordance with Contract Procedure Rules, payments are made appropriately, usage is monitored, and costs are recovered (where appropriate).</p> <p>The scope was extended during the review to incorporate the management/monitoring of the solar power system as this is a new technology providing energy to the Council. Monitoring records produced during the course of the review identified a number of gaps and omissions within the core records. This report has been extended to provide details of this where a significant risk to the Council has been identified.</p>
2	The review is included in the 2022/23 Audit Plan approved by the Governance Committee on the 29th March 2022.

<b>Audit Objectives</b>	
3	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.
4	The audit also assessed the effectiveness of the various other sources of assurances using the three lines of defence methodology.
5	The audit will focus on specific risks identified and agreed with management, listed in the Audit Engagement Plan. In addition, all fraud risks and performance management data will be included within our work.

<b>Audit Assurance</b>	
6	This is the first review of utilities management.
7	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.
8	Appendix A shows the risks agreed with management and the assurance opinion awarded to each. Our evaluation of the reliance we can place on the three lines of defence is also shown.
9	<p>This review has identified that there is a lack of overarching management of utilities, with the Council facing the following key operational risks:</p> <ul style="list-style-type: none"> <li>• Responsibility for the administration and management of utilities has not been clearly assigned with inadequate arrangements in place to validate supplier invoices which has led to fines, threats to cut off supplies and debt collection agency action.</li> <li>• There is a lack of policies and procedures to provide guidance and direction for officers. An SRBC/CBC working group has recently been set-up to address the gaps.</li> <li>• Non-compliance with regulations to ensure that the Council's responsibilities as a landlord are met regarding gas and electrical safety checks. Whilst work is in progress to ensure the electrical safety checks are carried out and evidenced, gas checks remain outstanding. This poses a significant health and safety risk to the Council and is a known material fact and will need to be declared to the insurance company.</li> <li>• The property records are inadequate and does not allow for the effective management of utilities; the Council doesn't currently know whether gas supplies are present for 84 out of 130 properties.</li> </ul>

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'

- It has been recognised in the Projects and Development Business Plan that the contracts for gas and electricity are due for review during 2023. However, the Service has failed to undertake a procurement exercise of water supplies since the deregulation of commercial water supplies in 2017, despite advice from the Procurement Team on several occasions. Therefore, we are unable to provide assurance that value for money has been achieved.
- A lack of routine information sharing with Exchequer Services. The review identified instances whereby the council was paying for utilities it is not responsible for that will need to be recovered from tenants.

The Council has recently invested in a solar power system, however following receipt of guidance recently issued by the Councils insurers it has been identified that insufficient maintenance arrangements are in place, and that officers have not been adequately trained to manage the system. This poses risks to health and safety/insurance cover and that the objectives of the original project may not be achieved.

For these reasons, 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
<b>Risk 1 – The Council’s contracts in place for the supply of utilities are not compliant with Contract Procedure Rules and do not achieve value for money</b>	
Utility procurements are undertaken in accordance with CPRs.	Action 4
Contract Transparency Register is maintained to ensure accurate utility supplier information is published.	Action 12
Business Plan key project established for the gas and electric re-tender process, to ensure progress will be monitored and timely procurement process can be completed in compliance with CPRs.	Working as intended
Contract Management System is used to help produce procurement plans and avoid missing deadlines.	Action 13
<b>Risk 2 – There is a lack of a clear inventory/asset register, ownership/clear responsibilities for utilities, including contract management</b>	
Utilities policy and procedural guidance	Action 1
Responsibilities for utilities and account management clearly assigned to officers	Action 2
Central asset register for properties (operational and investment) that is maintained and comprehensive. Detailing utilities that are present, meter details (number/type), responsibility for cost, recharging frequency (where applicable), utility supplier account details, occupier details etc.	Action 3
Responsibilities for utilities agreed with occupier and documented in lease/licence, signed by Council and occupier.	Action 9
Annual gas and electrical safety checks are carried out and recorded (where utilities are present) thus ensuring that all properties are tested.	Action 8
<b>Risk 3 – Lack of monitoring of utilities usage (metering) in Council land and buildings which could lead to increased costs and impact upon the Council’s reputation.</b>	
Record of meters and readings maintained	Action 3 & 5
Checking supplier invoices (prior to payment) to actual meter reading data to ensure the Council is charged correctly for the energy consumed.	Action 5 & 6
Monitoring consumption rates/or electricity generation levels (solar) to identify unexpected variances, such as water leaks or solar panel failures.	Action 5
<b>Risk 4 – Failure to properly budget for utility costs</b>	
Separate budget established for each type of utility to enable effective financial control and monitoring	Working as intended
Monthly budget monitor produced by Management Accountant and reviewed by budget holder, appropriate action taken as required	Action 6
<b>Risk 5 – The Council becomes subject to debt recovery procedures and incurs additional fines/penalties for late payment</b>	
To ensure prompt payment, correspondence address for all utility supplier invoices is a central Exchequer Services email account or PO Box.	Action 6
Procedure to regularly visit unoccupied premises to collect correspondence, so that any relating to utility suppliers can be dealt with promptly.	Action 6
End of tenancy checklist completed to capture utility supplier account details and final meter readings.	Working as intended
Procedure to transfer utilities account to SRBC, for instance upon termination of tenancy, includes supplier notification.	Action 6
Procedure to transfer utilities account upon commencement of tenancy, includes supplier notification that invoices must be sent to the new tenant.	Action 10
Written authority to update the Exempt List is communicated to Exchequer Services promptly following any changes that will impact utility supplier payments i.e. add /remove account details.	Action 10

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’

Utility supplier account monitoring process to ensure timely receipt and payment of invoices.	Action 6
Brought forward balances on utility supplier invoices are promptly investigated and appropriate action taken to clear it.	Action 6
<b>Risk 6 – The Council is paying for utility costs where responsibility does not rest with the organisation. Failure to recover utility costs from tenants of Council properties and ongoing review of rents where the costs are included.</b>	
Responsibilities for utilities and account management clearly assigned to officers	Action 1 & 7
Written authority to update the Exempt List is communicated to Exchequer Services promptly following any changes that will impact utility supplier payments i.e. add /remove account details.	Action 10
Utility supplier invoices are validated prior to payment and are authorised in accordance with the Council's Financial Regulations.	Action 6
Procedure to transfer utilities account upon commencement of tenancy, includes supplier notification that invoices must be sent to the new tenant.	Action 10
Lease agreement clearly sets out the responsibilities for utility accounts and payment (where tenant is recharged)	Working as intended
Tenants are billed promptly and correctly for utility costs	Action 11
Meter readings are taken to enable tenants to be accurately recharged (where applicable)	Working as intended

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'

## 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
Review of Utilities Management	Senior Management	Financial Services/ Procurement Team	Internal Audit	Reliance cannot be placed on the first line of defence whilst overall responsibilities for utilities and account management have not been clearly assigned. Only limited reliance can be placed upon the second line of defence as advice has not been acted upon and a robust information sharing process has not been applied in all instances.

### Risk and Control Evaluation

Risks Examined	Full	Substantial	Adequate	Limited
The Council's contracts in place for the supply of utilities are not compliant with Contract Procedure Rules and do not achieve value for money				✓
There is a lack of a clear inventory/asset register, ownership/clear responsibilities for utilities, including contract management				✓
Lack of monitoring of utilities usage (metering) in Council land and buildings which could lead to increased costs and impact upon the Council's reputation.				✓
Failure to properly budget for utility costs			✓	
The Council becomes subject to debt recovery procedures and incurs additional fines/penalties for late payment				✓
The Council is paying for utility costs where responsibility does not rest with the organisation. Failure to recover utility costs from tenants of Council properties and ongoing review of rents where the costs are included.				✓
<b>OVERALL AUDIT OPINION</b>				✓

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'

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

NO.	FINDING	AGREED ACTION	OFFICER & DATE
	<b>Policy, Procedures and Responsibilities</b>		
1	<p>The review found that the Council does not have an overarching utilities management policy and responsibility for the day to day administration and management of utilities has not been formally assigned. This has led to a lack of pro-active management of the Councils utility arrangements and a lack of awareness of what is required to ensure effective administration and monitoring.</p> <p>It was acknowledged during the review that work has commenced to develop policy and procedures to formalise arrangements, this is being done jointly with Chorley Council. This exercise should be completed as soon as possible to provide direction, designate responsibility and implement immediate improvement.</p>	<p>The Interim Head of Property and Estates will ensure that an overarching utilities management policy and any associated procedures are developed, responsibilities are identified, clearly assigned, communicated, approved (as necessary) and implemented. The joint working group will draft the overarching policy by 31<sup>st</sup> December 2022, and will consult Financial Services and the Procurement Team.</p> <p>The utilities management policy and any associated procedures will incorporate roles and responsibilities, objectives and targets. Including for instance:</p> <ul style="list-style-type: none"> <li>• Procurement</li> <li>• Ensure utility billing frequency is known for each property.</li> <li>• Ensure that up to date gas and electrical safety checks certifications are in place for each property.</li> <li>• Supplier bills will be correctly addressed and processed on a timely basis.</li> <li>• A systematic approach to taking and recording operational property meter readings will be established. Frequency to be determined by type of meter/consumption rates and included in a schedule.</li> </ul>	<p>Interim Head of Property and Estates 31st March 2023</p>

		<ul style="list-style-type: none"> <li>• Aspire to replace manual meters with smart meter technology.</li> <li>• The receipt and payment of invoices will be tracked for each property.</li> <li>• Pro-actively request invoices not received.</li> <li>• Investigate and clear account balances on a timely basis.</li> <li>• Invoice validation procedures will ensure rate and charge values are correct (per the contract); consumption is in line with expectation and anomalies investigated; billing dates are accurate and follow on from the previous invoice; usage volumes agrees to actual meter readings.</li> <li>• Pro-actively provide meter readings to the utility suppliers where invoices are based on estimates for more than one period.</li> <li>• Setting out specific supervisory check expectations, to provide assurance that the policy and procedures are effective and operating as expected.</li> </ul>	
2	<p>Employees currently undertaking aspects of utilities management do not have these responsibilities outlined within their job descriptions and lack the appropriate knowledge and training to fulfil this role. The Shared Service review should consider if sufficient resources have been allocated to this area.</p>	<p>Resources will be considered as part of the shared services review. The Interim Head of Property and Estates will ensure that utilities management and administration are included in the shared services job descriptions and procedures.</p> <p>Following the completion of the utilities management policy and the agreement of job descriptions staff training will be identified and delivered.</p>	<p>Interim Head of Property and Estates 31<sup>st</sup> March 2023</p>
	<b>Records</b>		



3	<p>Audit testing identified that sufficient utilities information is documented in the tenanted property recharge spreadsheets, however, comprehensive records are not in place for all other Council property.</p> <p>Property records should be improved to ensure that a comprehensive asset record is in place including the following elements in relation to utilities:</p> <ul style="list-style-type: none"> <li>• details of utilities present (gas/electric/other);</li> <li>• meter numbers, type (manual/automatic reading) and location;</li> <li>• account property references and utility provider account number (as appropriate);</li> <li>• utility payment (Council/tenant/tenant via recharge) and meter reading responsibilities (as appropriate);</li> </ul> <p>The intention is to implement TechForge (property and asset management software) to manage properties, however it is not known when this system will be implemented. It is important to ascertain if the system can capture this information, or if it can be built into the specification.</p> <p>In the interim period the current records should be improved so that accurate data can be uploaded to Tech Forge.</p>	<p>A comprehensive property asset record will be compiled in a spreadsheet, including the following elements in relation to utilities:</p> <ul style="list-style-type: none"> <li>• details of utilities present (gas/electric/other);</li> <li>• meter numbers, type (manual/automatic reading) and location;</li> <li>• account property references and utility provider account number (as appropriate);</li> <li>• utility payment (Council/tenant/tenant via recharge) and meter reading responsibilities (as appropriate).</li> </ul> <p>The Principal Estates Surveyor will co-ordinate obtaining commercial buildings information (via email questionnaire and/or possibly by visiting the premises). The Facilities Manager will provide the information for all the operational property.</p> <p>The Facilities Manager will ascertain if the Tech Forge system can be used to record the aforementioned utilities information.</p>	<p>Interim Head of Property and Estates 31<sup>st</sup> March 2023</p>
<b>Utility Arrangements for Council Owned and Managed Properties</b>			
4	<p>There has been a failure to undertake a procurement exercise for water supplies, despite advice being provided by the Council's Procurement Team on several occasions (since 2017 when the commercial water supply industry became de-regulated). We are unable to provide assurance that value for money has been achieved.</p>	<p>The Interim Head of Property and Estates will ensure that a procurement exercise is undertaken for the water contract. The Procurement Team will be contacted for advice regarding the best procurement approach to take for instance, undertaking a procurement exercise utilising a public agreement framework such as YPO.</p>	<p>Interim Head of Property and Estates 31<sup>st</sup> March 2023</p>

	We understand that a procurement exercise will be carried out jointly with Chorley Council but were provided with no indications of the timescales for this.		
5	<p>There is a lack of a systematic approach to take/record meter readings (gas/electric/water/solar) meaning that supplier bills may not reflect actual usage, and any unusual variances would not be identified on a timely basis.</p> <p>Although the Council has a mixture of smart and manual meters, meaning that some bills are based on actual consumption, the volume of each type is not known (due to lack of a central register). Understanding the type of meters will enable a process for regularly taking meter readings to be established.</p>	MA1 Refers	
6	<p>The review highlighted an overall lack of invoice monitoring and billing verification that risks the requirements of Financial Regulation 20.4 Payment of Accounts, requires that the certifying officer shall satisfy themselves that the services have been received, the prices are correct, the account is a proper liability of the Council not being satisfied. The following was observed:</p> <ul style="list-style-type: none"> <li>• No monitoring to ensure invoices are received and paid on a timely basis;</li> <li>• utility supplier invoices and other correspondence are not routinely addressed to the central Exchequer Services email account or postal address and has led to fines, threats to cut off supplies and debt collection agency action;</li> <li>• correspondence from unoccupied premises is not routinely collected and actioned;</li> <li>• lack of basic invoice validation checks to ensure that the Council is not being overcharged;</li> <li>• balances brought forward from previous bills (credit and debit) are not routinely verified and investigated;</li> </ul>	<p>As part of the implementation of property shared services, responsibility for the effective management of utility accounts will be assigned to a central property technical team. This team will be responsible for invoice monitoring and billing verification.</p> <p>Also, MA1 refers.</p>	Interim Head of Property and Estates 31st March 2023

	<ul style="list-style-type: none"> <li>additional issues relating to invoicing/billing were identified during the course of the review and notified to officers for rectifying.</li> </ul>		
	<b>Solar Power System</b>		
7	<p>The review found that there has been a lack of effective handover of the solar power system following installation, including failure to ensure that appropriate training and guidance was provided to those tasked with managing the system. This was recently recognised following the receipt of risk management guidance from the Council's insurance provider. It was highlighted that insufficient maintenance arrangements are in place and a maintenance programme should be introduced.</p> <p>The Facilities Management Team are currently working to address the maintenance recommendations and put a maintenance regime in place.</p>	<p>The Interim Head of Property and Estates will ensure that prior to assuming responsibility for any future installations (arising for instance from a project), a robust handover process and receipt of relevant documentation (manuals etc.) will be required.</p> <p>Officers responsible for the solar power system will be provided with sufficient guidance and training so that the system can be effectively managed and maintained. Management Action 2 refers.</p> <p>The Facilities Manager has put in place maintenance arrangements, as recommended by the insurance company; evidence will be provided to support this point.</p>	Interim Head of Property and Estates 31st March 2023
	<b>Commercial Tenant Utility Arrangements</b>		
8	<p>The Council (as landlord) is required by law to ensure gas and electrical safety checks are carried out. The review of property records found that the Council doesn't currently know whether gas supplies are present for 84 out of 130 properties. The safety certification has not been actively pursued for several years and this poses a significant risk to the Council should an incident occur.</p> <p>Work by the Property Team is currently in progress to obtain electrical safety testing certificates from tenants. However, work is yet to commence with regards to requiring tenants to obtain and provide gas safety certificates to the Council.</p>	<p>The Interim Head of Property and Estates will ensure as a priority that gas and electrical safety checks are carried out for all properties with electrical and gas supplies, any necessary action arising is undertaken, and evidence is retained. In future these certificates will be sought systematically on a timely basis.</p> <p>Tenants will be contacted to provide a copy of the gas safety testing certificates, adopting a similar approach to that taken to seek electrical certificates. Admin support will be provided by the Facilities Team. This</p>	Interim Head of Property and Estates 31st March 2023

		<p>task will be carried out concurrently with management action 3.</p> <p>There are currently 20 electrical test certificates outstanding; contractors are to be instructed to carry out these safety checks.</p>	
9	<p>The Property Team raised concerns that tenants may have disconnected gas supplies but not notified the Council. Current leases do not state that tenants must notify the Council (so that consent can be given). This could lead to additional reinstallation costs.</p> <p>Lease agreements should incorporate a clause that states that if a gas supply is not required and is to be removed notification/consent is required. Also, the supply should be reinstalled after the occupant terminates their tenancy.</p>	<p>The Interim Head of Property and Estates will update standard lease agreements to incorporate a clause stating that a gas supply shall not be removed without prior consent and should be reinstated on termination of tenancy.</p>	<p>Interim Head of Property and Estates 31st March 2023</p>
10	<p>During the review it was identified that utility bills are currently being paid for 3 properties where responsibility no longer rests with the Council despite a change of tenancy notification being issued to the utility supplier.</p> <p>The review found that an adequate change of tenant notification process is in place to notify utility suppliers, however, Exchequer Services are not routinely informed. This is an important control to prevent the Council paying utility invoices where responsibility for payment has transferred to an incoming tenant or the supply has been terminated.</p>	<p>The following improvements will be made for commercially leased properties:</p> <ul style="list-style-type: none"> <li>• The Estates Process Map will be updated to include completion of change of tenancy form, utility supplier and Exchequer Services notification.</li> <li>• The change of tenancy forms will be amended to include Exchequer Services notification to update the Exempt List.</li> </ul> <p>An exercise will be carried out by the Facilities and Estates Team to compare the list of utility accounts included in the Exempt List to property records to ensure records are up to date. Where property accounts are identified for removal the financial system will be checked to ensure invoices have not been paid in error and appropriate recovery action will be taken.</p>	<p>Interim Head of Property and Estates 31st March 2023</p>

11	<p>Testing identified a small number of examples where tenants are not currently being charged for all utility costs that are incurred by the Council including the DUoS capacity charge and the climate change levy.</p> <p>Additionally, it is not known how the standing charge, apportioned to the tenants, is calculated. The rate charged was last updated 1.1.2020.</p>	<p>Principal Estates Surveyor will investigate:</p> <ul style="list-style-type: none"> <li>the DUoS capacity charge and the climate change levy</li> <li>how the standing charge, apportioned to the tenants, is calculated.</li> </ul> <p>Information will be provided to the Director of Commercial Services to decide on tenant recharges.</p>	<p>Interim Head of Property and Estates 31st March 2023</p>
	<b>Other Relevant Policies and Procedures</b>		
12	<p>The Council is required to publish its contract data in the Contract Transparency Register. During the review it was identified that the register is incomplete and contract values are incorrectly recorded.</p>	<p>The Facilities Manager will ensure that the utilities information is brought up to date in the Contract Transparency Register.</p>	<p>Facilities Manager 31st October 2022</p>
13	<p>Contracts should be recorded in the corporate Contract Management System. The review found that current utility contracts are not recorded in the system.</p>	<p>The Facilities Manager will ensure that the utilities contracts are recorded in the Contract Management System.</p>	<p>Facilities Manager 31st October 2022</p>

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INTERNAL AUDIT PERFORMANCE INDICATORS AS AT 30<sup>th</sup> JUNE 2022 (Quarter one)

	Indicator	Audit Plan	Target 2022/23	Quarter One Target	Actual to Date	Comments
1	% of planned time used	SRBC	90%	50%	49.7%	On Target
2	% audit plan completed	SRBC	90%	30%	29%	On Target
3	% satisfaction rating (assignment level)	SRBC	90%	90%	97%	Above Target
4	% of agreed actions implemented by management	SRBC	90%	90%	64%	See body of the report
		SS	90%	90%	90%	

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Report of	Meeting	Date
Service Lead Audit and Risk	Governance Committee	Tuesday, 27 September 2022

## Internal Audit Plan October 22- March 23

Is this report confidential?	No
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### Purpose of the Report

1. This report sets out the programme of work to be undertaken by the Internal Audit Service. The Internal Audit Plan is the vehicle by which audit workload is identified and prioritised.

The main purposes of the report are to:

- Remind members of the respective roles of managers and Internal Audit to maintain a sound system of governance and internal control within the Council;
- Provide details and seek the Committee's approval of the Internal Audit Plan.

### Recommendations to Governance Committee

2. That the Committee approve the Internal Audit Plan.

### Corporate priorities

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

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

### The Role of Management and Internal Audit

4. The responsibility for implementing a strong system of governance and internal control within the Council lies primarily with the Shared Senior Management Team. Directors and Service Leads need to ensure that they maintain effective control

# Agenda Item 6

procedures not least because services and business systems are subject to on-going change.

5. Internal Audit is an independent appraisal function whose core objective is to evaluate and report on the adequacy of the Council's system of governance, risk management and internal control. In the main this is achieved through an annual programme of reviews, following a detailed risk assessment of audit need.

## **Development of the Internal Audit Plan**

6. Professional standards for Internal Audit in local government specify that "the Chief Audit Executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals."
7. To enable Internal Audit to be flexible and responsive to emerging risks across the organisation it was agreed with the Governance Committee in March 2022 that the Internal Audit Plan is developed and approved on a six-monthly basis.
8. The aim of adopting this methodology was to strengthen Internal Audit's approach to risk-based auditing ensuring that resources are focused on the highest risks within the Council. Furthermore, it will ensure that the opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and control as required by the Public Sector Internal Audit Standards is reflective of current environment that the Council is operating in.
9. This approach also allows the plan to be accurately tailored to the resources available during each 6-month period.
10. This is only the second plan to be developed using this approach and the benefits of it are already being realised. The attached plan contains of reviews which were unknown at the time of planning in February / March e.g. the insourcing of the waste service. In addition, reviews already undertaken have provided further substantive detail to inform the risk assessment.

## **Compilation of the Audit Plan**

11. The Internal Audit Plan October 22 – March 23 has been constructed after taking into consideration the following:
  - The Council's priorities / strategic plan;
  - A review of corporate strategies;
  - The corporate risk register;
  - Information taken from other assurance processes within, and external to, the Council, including External Audit and inspection reports;
  - Direct engagement with Directors;
  - The skills, knowledge and experience of audit staff;
  - Professional judgement on the risk of fraud and error;
  - Annual Governance Statement and Service Assurance Statements.

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12. The Internal Audit Plan contains the programme of reviews for the period of October 22 to March 23 and is shown at **Appendix A**. This clearly shows the link between the work of Internal Audit, strategic and operational risks and corporate objectives. The reviews are clearly highlighted with the quarter for completion. The plan also details our involvement with key project teams assisting with advice and guidance on risk management, internal control and governance.

## **Audit Resource**

13. The Internal Audit Plan will be completed largely by the in-house team with external support procured for specialist ICT reviews and additional capacity provided by some temporary resource. We have also recently successfully appointed to the post of Audit Trainee and this post is included in the resource allocation.

## **Internal Audit Annual Opinion**

14. Successful delivery of the two combined six-month Plans will mean that Internal Audit will have delivered, in total 309 audit days to South Ribble Council and 105 days to South Ribble Leisure Limited, resulting in 21 audit assurance ratings.
15. This is considered to be sufficient coverage in order to be able to provide the Governance Committee with an annual opinion on the overall adequacy and effectiveness of the organisation's governance, risk management and control processes as required by the Public Sector Internal Audit Standards.

## **Climate change and air quality**

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

## **Equality and diversity**

17. The material presented and discussed in this report has no direct implications on equality and diversity.

## **Risk**

18. Risks are outlined through the body of the report.

## **Comments of the Statutory Finance Officer**

19. No comment.

## **Comments of the Monitoring Officer**

20. No comment.

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

## **Appendices**

Appendix A – Internal Audit Plan October 22 to March 23

# Agenda Item 6

Report Author:	Email:	Telephone:	Date:
Dawn Highton (Shared Service Lead- Audit & Risk)	dawn.highton@southribble.gov.uk	01772 625625	13.9.22

<b>Internal Audit Plan - October 22 to March 23</b>	<b>QTR</b>	<b>SRBC</b>	<b>Detailed Rationale</b>	<b>Links to Risk Registers (strategic &amp; operational) / Corporate Plan Projects</b>
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<b>CORPORATE</b>				
Anti-Fraud & Corruption	ALL	1	Review and update of probity policies	Annual Governance Statement
National Fraud Initiative	3	5	Submission of data for the 2022 exercise	Annual Governance Statement
COVID - Grant assurance	ALL	6.5	Continued support with grants / BEIS liaison	Annual Governance Statement
<b>CUSTOMER AND DIGITAL</b>				
<b>Customer Services</b>				
Revenues and Benefit project support	ALL	2.5	Proactive support to assist with the aligning of processes.	Business plans / transformation
<b>ICT</b>				
Vulnerabilities Management	4	15	Risk based review	Operational
ICT Support	3	10	Proactive support	Operational
<b>Neighbourhoods</b>				
Waste Services	3	15	Risk based review of in-house service, including commercial waste	Operational
Water and open spaces management	4	15	Risk based review	Operational
<b>PLANNING &amp; DEVELOPMENT</b>				
Community Infrastructure Levy	3	15	Deferred from 21/22 – risk-based review	Operational

Internal Audit Plan - October 22 to March 23	QTR	SRBC	Detailed Rationale	Links to Risk Registers (strategic & operational) / Corporate Plan Projects
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<b>COMMERCIAL &amp; ASSETS</b>				
Project support	ALL	1.5	Proactive support	Corporate Plan projects
<b>COMMUNITIES</b>				
Boost / Boost plus / Leisure Local Grants	4	10	Compliance review.	Corporate plan project
<b>DELIVERY AND CHANGE</b>				
Key Strategic Contract and Partnerships	4	10	Compliance review.	Strategic Risk Register
Payroll	4	15	Risk based review. New system operational	Operational
Business Grants	3&4	15	Proactive support with the development of grant process / Compliance review	Corporate Plan
<b>GOVERNANCE</b>				
General Data Protection Regulations	4	10	Risk based review. In depth review on data retention.	Operational / Strategic Risk Register
<b>SHARED FINANCIAL SERVICES</b>				
External funding	4	10	Compliance with grant conditions.	Operational / Strategic Risk Register
<b>GENERAL</b>				
Post Audit Reviews	ALL	2.5	Follow up of agreed actions	
Contingency / Irregularities	ALL	2.5	Unplanned reviews / contingency	
PSIAS - PEER REVIEW	ALL	2.5	Peer Review process	
Internal Audit Effectiveness review	4	3	IA Effectiveness review	
Committee Reporting / Effectiveness Review	All	5	Preparation of reports and attendance at Audit & Standards Committee	
<b>TOTALS</b>		<b>172</b>		