



The Annual Audit Letter for South Ribble Borough Council

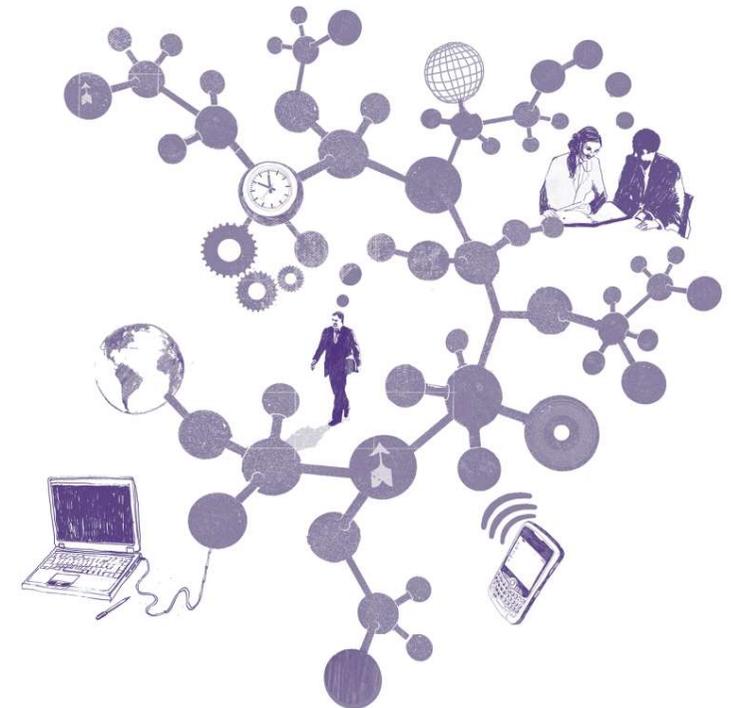
Year ended 31 March 2017

23 October 2017

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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work we have carried out at South Ribble Borough Council (the Council) for the year ended 31 March 2017.

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

We reported the detailed findings from our audit work to the Council's Governance Committee (as those charged with governance) in our Audit Findings Report on 13 September 2017.

Our responsibilities

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

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

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

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 29 September 2017.

Value for money conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2017 except for the failings in the Council's procedures, including a major corporate governance failure, which resulted in significant damage to the Council's reputation. We therefore qualified our value for money conclusion in our audit opinion on 29 September 2017

Certificate

We certified that we had completed the audit of the accounts of South Ribble Borough Council in accordance with the requirements of the Code on 29 September 2017.

Certification of grants

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2017. We will report the results of this work to the Governance Committee in our Annual Certification Letter.

Working with the Council

During the year we have enjoyed a good working relationship with the Council. Our regular meetings with the management team have enabled us to complete an audit focussed on relevant risks. This helped inform our audit plan issued in March 2017 and enabled us to complete our focussed audit work by the statutory deadline.

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

Grant Thornton UK LLP
October 2017

Audit of the accounts

Our audit approach

Materiality

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

We determined materiality for our audit of the Council's accounts to be £0.888million, which is approximately 2% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality for the identification of related parties and senior officer remuneration.

We set a lower threshold of £44,000, above which we reported errors to the Governance Committee in our Audit Findings Report.

The scope of our audit

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

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

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

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

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

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

Audit of the accounts – South Ribble Borough Council

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of pension fund net liability</p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p>	<p>We:</p> <ul style="list-style-type: none"> identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. assessed whether these controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement. reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We gained an understanding of the basis on which the valuation is carried out. undertook procedures to confirm the reasonableness of the actuarial assumptions made. reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. 	<p>The overall conclusion is that the pension fund liability is materially correct and we found no issues to report in our Audit Findings Report presented to the Governance Committee on 13 September 2017.</p>
<p>Valuation of property, plant and equipment (PPE)</p> <p>The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements</p>	<p>We:</p> <ul style="list-style-type: none"> reviewed management's processes and assumptions for the calculation of the estimate. reviewed the competence, expertise and objectivity of any management experts used. reviewed the instructions issued to valuation experts and the scope of their work corresponded with the valuer about the basis on which the valuation is carried out and challenge of the key assumptions. reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding. tested revaluations made during the year to ensure they are 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. 	<p>Appropriate assurance has been gained and there are no issues arising.</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 29 September 2017, in advance of the 30 September 2017 national deadline.

The Council authorised the accounts available for audit on 30 June 2017 and provided appropriate supporting working papers. The finance team responded as required to our queries during the audit. Whilst there was one classification issue on the balance sheet, which is outlined below, and some disclosure amendments that were outlined in our audit findings report, the accounts were generally of a good quality.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Council to the Governance Committee on 20 September 2017. In addition to the key significant audit risks reported above, we identified the following issues during our audit that we have asked the Council's management to address for the next financial year:

- Our review of cash equivalents in the cash balance identified £13m of balances that were incorrectly disclosed in the balance sheet. Paragraph 7 of IAS 7 states: 'an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three-months or less from the date of acquisition' (IAS 7.7). For all of the items within the £13m the maturity date was more than 3 months from the date of acquisition and were re-categorised as short term investments
- We concluded that the Council's revenue recognition policy was adequately disclosed, but could be enhanced by including reference to specific forms of income, such as council tax, business rates and grants
- The CIPFA disclosure checklist is a key document that gives assurance to those authorising the accounts that the financial statements includes all appropriate disclosures. The disclosure checklist had not been completed and we had to complete this as part of our audit. We have recommended that the Council completes the disclosure checklist as the financial statements are being prepared

- We requested further prime documentation be made available as part of the working papers to support senior officer remuneration

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement (AGS) and Narrative Report. It published them on its website with the draft accounts in line with the national deadlines. We did request a small number of amendments to the AGS to further improve the disclosures made in the Statement however our overall conclusions are that both documents were:

- prepared in line with the relevant guidance; and
- consistent with the supporting evidence provided and with our knowledge of the Council.

Other statutory duties

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts. We are pleased to report that we did not have to use any of our additional powers or duties at the Council and no objections were received.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2016 which specified the criterion for auditors to evaluate:

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

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out in table 2 overleaf.

Overall VfM conclusion

Based on the work we performed to address the significant risks, we concluded that:

- except for the matters we identified in respect of the Scrutiny Committee Task Force review following the investigation of matters related to the licensing service, the Council had proper arrangements. We therefore gave a qualified 'except for' conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in your use of resources.

Value for Money

Table 2: Value for money risks

Risk identified	Work carried out	Findings and conclusions
<p>Improvement plan</p> <p>In December the Cabinet endorsed the development of a detailed improvement action plan, following the approval of a previous plan arising from the Scrutiny Review of Licensing, and the development and approval of the Annual Governance Statement.</p> <p>The detailed action plan includes specific milestones, with timescale and leads, which are linked to different improvement themes.</p> <p>As the improvement plan underpins the Council's Corporate Priority to be an 'efficient, effective and exceptional council' there is a risk that, without the delivery of the milestones, the corporate priority will not be achieved.</p>	<p>We reviewed the progress made in implementing the actions and also considered how the Council is monitoring progress.</p>	<p>Last year we qualified the Council's VfM Conclusion due to the matters identified in respect of the Scrutiny Committee Task Force review following the investigation of matters related to the licensing service. Due to the related issues remaining throughout much of 2016/17 we have concluded that we will need to include a similar "except for" VfM conclusion.</p> <p>However the Council has looked to make some improvements.</p> <p>The Scrutiny Committee Task Force review into taxi licensing highlighted a number of serious governance concerns including:</p> <ul style="list-style-type: none"> • a major corporate governance failure within the Council which resulted in significant damage to the Council, its reputation and trust with residents • unconstitutional actions taken by members and officers • failure to follow contract procedure rules • apparent exclusions of key officers and members from the review process • member intervention in disciplinary proceedings in contravention of the Council's constitution • lack of clarity among some officers with respect to the roles of officers and members. <p>The Local Government Association (LGA) Peer Review team stated in their report published in April 2017 that 'the Council is currently seeking to recover from a number of governance issues which continue to absorb a large amount of the Council's capacity and attention.'</p> <p>Given the timing of the above we have had to take the issues in to consideration in this year's VfM Conclusion. However in the period between December 2016 and September 2017 the Council has responded to the issues in several different ways including:</p> <ul style="list-style-type: none"> • Developing the improvement action plan – this has been regularly reported to Scrutiny Committee • Bringing in the Peer Review team for the review of the Council in March • The development of the Improvement Reference Group in response to the findings of the Peer Review during 2017/18. <p>However due to the fact that the VfM Conclusion covers the period 1 April 2016 through to 31 March 2017 our conclusion remains that there were weaknesses in the Council's arrangements for demonstrating and applying the principles and values of good governance to support informed decision making and this led to an 'except for' VfM Conclusion.</p>

Value for Money

Risk identified	Work carried out	Findings and conclusions
<p>Medium term financial planning The medium term financial strategy is based on a number of assumptions that will result in the Council overcoming an estimated gross cumulative budget deficit in 2019/20 of approximately £3.3m. The Council plans to meet this deficit through a number of ways including new or increased charges; the extension of shared service arrangements; and the Business Transformation Programme.</p> <p>There is a risk that if the new ways of working and revised charges do not deliver then the Council will not be sustainable in future years.</p>	<p>We considered the main assumptions in meeting the deficit in future years by reviewing some of the key ways the Council is planning to reduce expenditure (e.g. expanding shared services) or increase income (e.g. Garden Waste charges).</p>	<p>The medium term financial strategy highlighted that the Council will be facing an estimated gross cumulative budget deficit of £3.3m by 2019/20. The financial position at South Ribble is a complex one. The Council is fortunate to find itself in a position where it has no outstanding loans, short-term investments of £25m and usable revenue and capital reserves of £27m. However, financial pressures remain and a number of major schemes have been identified to bridge the budget deficit. We noted that the Peer Review recommended that the Council should develop robust plans to bridge the financial gap in the Council's medium term financial plan, focused around firm project plans.</p> <p>We reviewed four schemes in relation to the supporting evidence</p> <ul style="list-style-type: none"> • Charging for the collection of garden waste (£540,000) – calculations provided though achievement very much dependent on take-up of the service • Council Tax increase (£457,000) – calculations provided, however this at the higher end of the likely increase in income • Expansion of shared services (£750,000) – plans are developing and the savings are yet to be confirmed • Business Transformation Programme (£500,000) – plans are developing and an analysis was provided <p>As highlighted in the peer review report there is a need to bring the medium term financial plan 'alive' over the next few months by bringing forward concrete project plans for the larger-scale savings projects. However our conclusion is that, despite further work being required to produce detailed project plans, the Council remain in a relatively good position in relation to the overall financial position.</p> <p>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements</p>

Value for Money

Risk identified	Work carried out	Findings and conclusions
<p>Staff survey The staff survey, reported to Scrutiny Committee in January 2017, highlighted a number of issues in relation to the overall morale and welfare of the Council's workforce. This included:</p> <ul style="list-style-type: none"> • 48% of staff said the working environment was stressful • Over 23% said that they had been bullied or harassed at work; • Only 4% said that they felt morale was good across the Council and; • Only 16% felt that the work of their service area was valued by Councillors <p>There is an obvious risk that if these issues are not addressed urgently it will both damage the reputation of the Council and reduce the overall effectiveness of services.</p>	<p>We considered the Council's approach to responding to the issues set out in the survey as well as seeing how it has assessed the impact of the poor morale.</p>	<p>The Council has responded to the Staff Survey and there is no evidence to suggest a negative impact on service delivery. Both the Communications Strategy and the Transformation Strategy were developed to address issues raised in the survey. Other work is ongoing such as the development of the social media policy for members and the development of a new member / officer protocol.</p> <p>We considered whether there has been any impact on the Council's performance, however evidence suggests it was 'business as usual'. An LGA resident survey found there were good to high levels of satisfaction among residents with regards to all five indicators of satisfaction in the survey. For each measure, a significantly higher proportion of South Ribble respondents gave a positive reply compared to the proportion observed nationally.</p> <p>We have concluded that the issues identified in the survey did not have a significant impact on the Council's performance and that the Council took on board the issues. Whilst some of the actions have been finalised in 2017/18, or are on-going, and therefore outside of the formal consideration for the VfM Conclusion, it is important that the Council takes a considered approach to deal with the issues raised.</p> <p>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements</p>

Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and that there were no fees for the provision of non audit services.

Fees

	Proposed fee £	Actual fees £	2015/16 fees £
Statutory audit of the Council	43,923	43,923	43,923
Housing Benefit Grant Certification	6,968	Tbc	7,128
Total fees (excluding VAT)	50,891	Tbc	51,051

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA). Our certification work is due to be completed by 30 November 2017 and our fees will be confirmed shortly after that date.

Reports issued

Report	Date issued
Audit Plan	April 2017
Audit Findings Report	September 2017
Annual Audit Letter	October 2017

Fees for other services

We confirm that no non-audit or audited related services have been undertaken for the Council



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