

# Audit Findings

*Year ending 31 March 2018*

---

South Ribble Borough Council  
26 July 2018



# Contents



## Your key Grant Thornton team members are:

Mark Heap

Engagement Lead

T: 0161 234 6375

E: mark.r.heap@uk.gt.com

Simon Hardman

Engagement Manager

T: 0161 234 6379

E: simon.hardman@uk.gt.com

Richard Watkinson

In-charge Auditor

T: 0161 234 6345

E: richard.watkinson@uk.gt.com

## Section

1. Headlines
2. Financial statements
3. Value for money
4. Other statutory powers and duties
5. Independence and ethics

## Page

- [X]  
[X]  
[X]  
[X]  
[X]

## Appendices

- A. Follow up of prior year recommendations
- B. Audit adjustments
- C. Fees
- D. Audit Opinion

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: 30 Finsbury Square, London, EC2A 1AG. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

# Headlines

This table summarises the key issues arising from the statutory audit of South Ribble Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2018 for those charged with governance.

<b>Financial Statements</b>	<p>Under the International Standards of Auditing (UK) (ISAs), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none"><li>the Council's financial statements give a true and fair view of the Council's financial position and of the group and Council's expenditure and income for the year, and</li><li>have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.</li></ul> <p>We are also required to report whether other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Our audit work was completed on site during June and July. We have identified no amendments to the financial statements that have resulted in an adjustment to the Council's financial position. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.</p> <p>Subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Governance Committee meeting on 26 July 2018. These outstanding items include:</p> <ul style="list-style-type: none"><li>- receipt of management representation letter;</li><li>- completing our cut-off testing</li><li>- review of the financial instruments</li><li>- concluding on outstanding queries with the Council</li><li>- review of the audit files by the Engagement Lead and Manager</li><li>- review of the final set of financial statements.</li></ul> <p>We have concluded that the other information published with the financial statements, which includes the Statement of Accounts, Annual Governance Statement and Narrative Report, are consistent our knowledge of your organisation and with the financial statements we have audited.</p>
<b>Value for Money arrangements</b>	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none"><li>the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion')</li></ul>	<p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that South Ribble Borough Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources, except for in relation to the Peer Challenge team finding that the pace of change remains too slow, with progress being hampered by a number of issues, including the lack of permanent senior capacity and the need to develop a coherent approach to corporate planning, financial planning and strategic risk.</p> <p>We therefore anticipate issuing a qualified 'except for' value for money conclusion, as detailed in Appendix D.</p>
<b>Statutory duties</b>	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"><li>report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and</li><li>certify the closure of the audit</li></ul>	<p>A statutory recommendation to the Council, under Section 24 of the Act has been made and will require a formal response. More details are set out on pages 16 to 18 of this report.</p> <p>We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.</p>

## Acknowledgements

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

# Summary

## Overview of the scope of our audit

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

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

## Audit approach

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

- An evaluation of the Council's internal controls environment including its IT systems and controls;

- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

## Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Governance Committee meeting on 26 July 2018, as detailed in Appendix E. These outstanding items include:

- receipt of management representation letter;
- completing our cut-off testing
- review of the financial instruments
- concluding on outstanding queries with the Council
- review of the audit files by the Engagement Lead and Manager
- review of the final set of financial statements.

## Our approach to materiality

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

Materiality calculations remains the same as reported in our audit plan.

	(£000)	Qualitative factors considered
Materiality for the financial statements	850	Based on risk and standard percentage of gross revenue expenditure
Performance materiality	638	Based on risk and is 75% of materiality
Trivial matters	43	Based on risk and is 5% of materiality
Materiality for specific transactions, balances or disclosures	5	Senior Officer remuneration note – bandings of £5k, therefore used as a basis. This excludes exit packages, which is £100k due to Treasury Rules
	43	Related parties – please note this is an indicative value as we need to consider materiality from both the Council and the other party perspective.

# Going concern

## Our responsibility

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

## Going concern commentary

---

### Management's assessment process

Key elements include

- Consideration of the Council's financial position through the Medium Term Financial Strategy (MTFS)
- A robust Treasury Management Strategy

### Auditor commentary

- Management processes are appropriate in ensuring that the going concern assumption in the preparation and presentation of the financial statement.

### Work performed

- For the opinion we considered the appropriateness of the Council's conclusion
- We also considered whether the going concern policy is adequately stated.

### Auditor commentary

- We identified no issues from our work on the going concern,

### Concluding comments

### Auditor commentary

- There is no impact on our opinion, which remains unmodified.
-

# Significant audit risks

Risks identified in our Audit Plan	Commentary
<p><b>1 Improper revenue recognition</b> Under ISA 240 (UK) there is a 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> <p>Therefore we do not consider this to be a significant risk for South Ribble Borough Council.</p>
<p><b>2 Management override of controls</b> 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. The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>• gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness</li> <li>• obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness</li> <li>• evaluated the rationale for any changes in accounting policies or significant unusual transactions.</li> </ul>

We identified management override of controls as a risk requiring special audit consideration.

# Significant audit risks

## Risks identified in our Audit Plan

## Commentary

3

### Valuation of property, plant and equipment

The Council revalues its land and buildings on a quinquennial basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.

We identified land and buildings revaluations and impairments as a risk requiring special audit consideration.

We have:

- reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work
- given consideration of the competence, expertise and objectivity of any management experts used
- discussed with the valuer the basis on which the valuation is carried out and challenged 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.

We are finalising our work and no issues have been identified

4

### Valuation of pension fund net liability

The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.

We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.

We have:

- identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We also assessed whether these controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement
- evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We have gained an understanding of the basis on which the valuation is carried out
- undertaken procedures to confirm the reasonableness of the actuarial assumptions made.
- checked the consistency of the pension fund asset and liability position and disclosures in notes to the financial statements with the actuarial report from your actuary.




We are finalising our work and no issues have been identified.

# Reasonably possible audit risks




Risks identified in our Audit Plan	Commentary
<p><b>7 Employee remuneration</b> Payroll expenditure represents a significant percentage of the Council's operating expenses.</p> <p>As the payroll expenditure comes from a number of individual transactions and an interface with a sub-system there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>evaluated the Council's accounting policy for recognition of payroll expenditure for appropriateness</li> <li>gained an understanding of the Council's system for accounting for payroll expenditure and evaluated the design of the associated controls</li> <li>obtained year-end payroll reconciliation and ensured the amount in the accounts can be reconciled to the ledger and through to payroll reports. Investigated significant adjusting items</li> <li>agreed any material payroll related accruals to supporting documents and reviewed any estimates for reasonableness.</li> </ul> <p>As we finalise our work, no issues have currently been identified.</p>
<p><b>8 Operating expenses</b> Non-pay expenses on other goods and services also represents a significant percentage of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs.</p> <p>We identified completeness of non-pay expenses as a risk requiring particular audit attention.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>evaluated the Council's accounting policy for recognition of non-pay expenditure for appropriateness</li> <li>gained an understanding of the Council's system for accounting for non-pay expenditure and evaluated the design of the associated controls; and</li> <li>obtained a listing of non-pay payments made in April, taken a sample and ensured that they have been charged to the appropriate year.</li> </ul> <p>As we finalise our work, no issues have currently been identified.</p>



# Accounting policies

Accounting area	Summary	Comments	Assessment
<b>Revenue recognition</b>	<ul style="list-style-type: none"> <li>• Revenue recognition policy in note 2. of accounts covers areas such as:               <ul style="list-style-type: none"> <li>○ Revenue from the sale of goods and the provision of services is recognised when it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.</li> <li>○ Revenue from Council Tax and Business Rates is measured at the full amount receivable as non-contractual/exchange transactions.</li> </ul> </li> <li>• Also in note 2 it sets out for grants that amounts are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied.</li> </ul>	<ul style="list-style-type: none"> <li>• The accounting policy is appropriate when considered against the accounting framework.</li> <li>• The accounting policy is adequately disclosed</li> <li>• The Council included the council tax and business rates in the policies after our recommendation in our 2016/17 Audit Findings Report</li> </ul>	
<b>Judgements and estimates</b>	<ul style="list-style-type: none"> <li>• Key estimates and judgements include               <ul style="list-style-type: none"> <li>– Useful life of PPE</li> <li>– Revaluations</li> <li>– Impairments</li> <li>– Accruals</li> <li>– Valuation of pension fund net liability</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• The relevant accounting policies are appropriate when considered against the accounting framework.</li> <li>• The accounting policies are adequately disclosed</li> </ul>	
<b>Other policies</b>		<ul style="list-style-type: none"> <li>• We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. The Council's accounting policies are appropriate and consistent with previous years.</li> </ul>	

## Assessment

-  Marginal accounting policy which could potentially be open to challenge by regulators
-  Accounting policy appropriate but scope for improved disclosure
-  Accounting policy appropriate and disclosures sufficient

# Other communication requirements

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

Issue	Commentary
① <b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Governance Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.</li> </ul>
② <b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>With the exception of an amendment in relation to including an additional related party for Joanne Platt Associates Limited, no further issues have been identified.</li> </ul>
③ <b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.</li> </ul>
④ <b>Written representations</b>	<ul style="list-style-type: none"> <li>A standard letter of representation has been requested from the Council</li> </ul>
⑤ <b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We requested from management permission to send a confirmation request in relation to IAS19 disclosures. This permission was granted and the request was sent and relevant information received. We also worked with the Council to ensure we received appropriate confirmation for the cash and cash equivalents balance.</li> </ul>
⑥ <b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements</li> </ul>
⑦ <b>Audit evidence and explanations</b>	<ul style="list-style-type: none"> <li>All information and explanations requested from management was provided</li> </ul>
⑧ <b>Significant difficulties</b>	<ul style="list-style-type: none"> <li>We had some initial difficulties in relation to receiving the financial information in the correct format. These initial difficulties delayed the start of our detailed testing resulting in a later completion of our testing than originally planned. We still expect to give our opinion on the financial statements by the statutory deadline of 31 July 2018.</li> </ul>

# Other responsibilities under the Code

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

Issue	Commentary
① <b>Other information</b>	<ul style="list-style-type: none"> <li>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</li> </ul> <p>No inconsistencies have been identified and management have agreed to make minor amendments to further improve the statements.</p>
② <b>Matters on which we report by exception</b>	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> <li>If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit</li> <li>If we have applied any of our statutory powers or duties</li> </ul> <p>We have nothing to report on these matters</p>
③ <b>Specified procedures for Whole of Government Accounts</b>	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <ul style="list-style-type: none"> <li>Note that work is not required as the Council does not exceed the threshold;</li> </ul>
④ <b>Certification of the closure of the audit</b>	<p>We intend to certify the closure of the 2017/18 audit of South Ribble Borough Council in the audit opinion, as detailed in Appendix D.</p>

# Value for Money

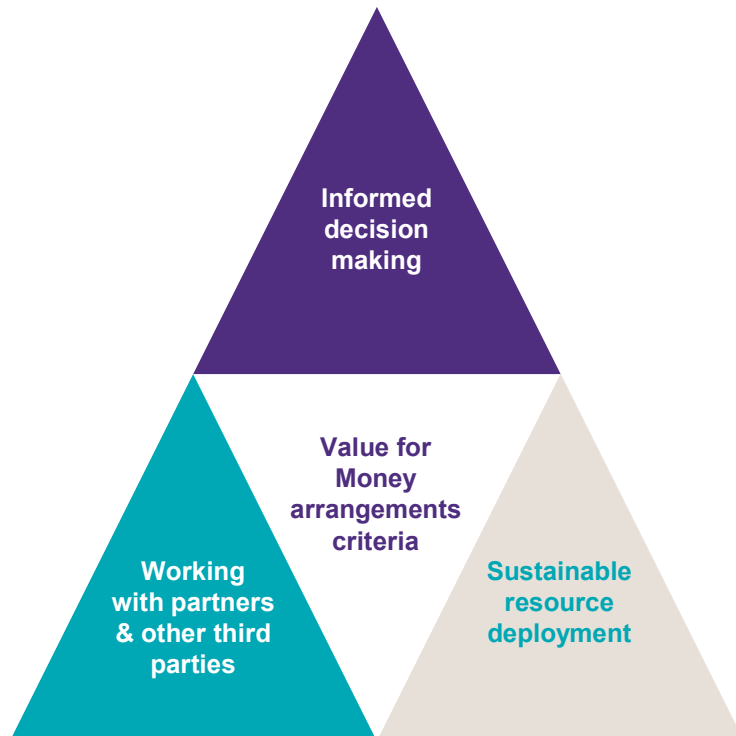
## Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance identifies one single 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.”*

This is supported by three sub-criteria, as set out below:



## Risk assessment

We carried out an initial risk assessment in and identified two significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan presented to the Governance Committee in April 2018..

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

# Value for Money

## Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- Reviewing the progress made by the Council in responding to the governance challenges
- Gaining an understanding of the findings from further external reviews and considering whether they are consistent with our own findings
- Reviewing the arrangements in developing financial plans and reporting its financial position.
- Looking at how the role of the s151 officer was performed during the year.

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work on the following pages.

## Overall conclusion

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

- except for the matter we identified in respect of the LGA Peer Challenge team finding that the pace of change remains too slow, with progress being hampered by a number of issues, including the lack of permanent senior capacity and the need to develop a coherent approach to corporate planning, financial planning and strategic risk. We therefore propose to give a qualified 'except for' conclusion on your arrangements for securing economy, efficiency and effectiveness in your use of resources as it is evidence of weaknesses in proper arrangements for acting in the public interest, through demonstrating and applying the principles and values of sound governance to support informed decision making.

The draft text of our proposed report has been considered by our technical team and we include this as appendix D to this report.

## Recommendations for improvement

Due to the slow progress made in responding to the recommendations made by the Local Government Association (LGA) in their Corporate Peer Review in 2017, we have made a statutory recommendation to the Council under section 24 of the Local Audit and Accountability Act 2014. Pages 16 to 18 include more detail on the background on the issue and the recommendation.

## Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

## Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

	Significant risk	Findings	Conclusion
<p><b>1</b> For the year ended 31 March 2017 we qualified the VfM Conclusion due to the failings in the Council's procedures, including a major corporate governance failure, which resulted in significant damage to the Council's reputation.</p>	<p>In 2015/16, we qualified the Council's VfM Conclusion due to matters identified in respect of the Scrutiny Committee Task Force review, after the investigation of matters related to the licensing service. The task force highlighted a number of issues including relating to a number of corporate governance failings.</p> <p>In our 2016/17 review we commented that some improvements had taken place with the introduction of the Improvement Reference Group, improvement action plans and bringing in a LGA Peer Review team. However insufficient progress had been made to enable us to remove or 'except for' conclusion.</p> <p>In 2017/18 there remained a very mixed picture. Some of the positives are :</p> <ul style="list-style-type: none"> <li>• The improvement reference group met throughout the year and included members from all parties; senior officers; and LGA representation.</li> <li>• A new corporate plan was prepared and issued and had broad all-party support</li> <li>• The Member / Officer Protocol has been approved</li> <li>• Transformation plans are now in place</li> <li>• Performance and satisfaction with the Council remains high</li> <li>• Financially the Council are in a relatively healthy position</li> </ul> <p>However, as highlighted during the LGA revisit, a number of areas still require attention and the overall pace of change remains slow. The new management structure took some time to approve and posts remain unfilled, resulting in a lack of senior capacity. A review of the senior officer remuneration note in the Council's 2017/18 accounts highlights a management team in some flux with interim appointments and two permanent Directors leaving.</p> <p>The organisational uncertainty has not been helped by:</p> <ul style="list-style-type: none"> <li>• Uncertainty over the development of further shared services</li> <li>• Changes in the personnel fulfilling the role of the s151 officer.</li> </ul> <p>The LGA Peer Review referred to "ongoing political issues" which were still causing some distraction and delaying the improvement journey. It was an issue that was raised several times in the report.</p> <p>The LGA also raised issues in relation to the Governance Committee's role being unclear and the need to improve internal communication, whilst there is insufficient assurance about the implementation of the MTFS. It noted that: "there is a need to develop a coherent approach to corporate, financial planning and strategic risk"</p> <p>Given the above we have concluded that we are unable to lift our "except for" value for money conclusion</p>	<p><b>Auditor view</b></p> <ul style="list-style-type: none"> <li>• The pace of progress has been slow and there is an urgent need to ensure there is sufficient senior capacity to quicken the pace of change</li> <li>• The LGA made a number of recommendations and we feel that there is an urgent need to ensure each one is dealt with robustly</li> <li>• Due to the slow progress made in responding to the recommendations made by the Local Government Association (LGA) in their Corporate Peer Review in 2017, we have made a statutory recommendation to the Council under section 24 of the Local Audit and Accountability Act 2014. Pages 16 to 18 include more detail on the background on the issue and the recommendation.</li> </ul> <p><b>Management response</b></p> <ul style="list-style-type: none"> <li>• The Chief Executive fully accepts the Auditor's opinion. Recruitment is currently underway for a number of key strategic posts. A detailed Action Plan will be prepared as outlined by the Auditor above.</li> </ul>	

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

	Significant risk	Findings	Conclusion
2	<p>There remain financial challenges over the next few years which the Council needs to meet. There is a risk that financial planning and management will not be adequate to meet those challenges.</p>	<p>Overall we concluded that the arrangements were adequate, though this is partially due to the relatively strong financial position in which the Council finds. Furthermore there was a LGA review in 2017 that considered the financial planning assumptions and the budget setting process, Whilst some recommendations were made to improve the financial planning process we did note the final conclusion that generally the Council’s MTFS and budget are based on reasonable though slightly cautious financial planning assumptions.</p> <p>We did find a number of issues for the Council to address including:</p> <ul style="list-style-type: none"> <li>• The position of the s151 officer is a key statutory role. During the past nine months there has been some uncertainty in relation to the role, which has resulted in there being four officers either in the role, or fulfilling the role. We briefly considered the role of the s151 officer against CIPFA guidelines for the role. Whilst we accepted that the role was sufficiently maintained and discharged, it is difficult to see how a fully strategic approach could be taken when there has been so much change</li> <li>• In many Councils, the finance report is considered by the Cabinet / Executive and a Scrutiny Committee. In many cases the performance reports are also considered. Such practice allows service and financial performance to be considered together to allow an important overview. At South Ribble, the finance report is presented to the Governance Committee, even though a review of the Constitution is not clear in relation to where the finance report should be considered</li> <li>• The finance report shows variances by type of spend, rather than by service provision, making it more difficult to analyse overspend by service.</li> </ul>	<p><b>Auditor view</b></p> <ul style="list-style-type: none"> <li>• Whilst arrangements are adequate, we have made some recommendations for improvement</li> </ul> <p><b>Management response</b></p> <ul style="list-style-type: none"> <li>• The position with regard to the s151 role is dependent on the progress to deliver the Council’s shared services agenda. However to ensure stability, the new Deputy Chief Executive (Resources and Transformation) role has a requirement for a formal accountancy qualification and this will therefore ensure continuity of the s151 role. With regard to financial reporting and its governance, this will be reviewed as outlined.</li> </ul>

## Other statutory powers and duties

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

Issue	Commentary
<b>1 Recommendation made under section 24 of the Local Audit and Accountability Act 2014 ('the Act')</b>	<ul style="list-style-type: none"><li>• As well as our responsibilities to give an opinion on the financial statements and assess the arrangements for securing economy, efficiency and effectiveness in the Council's use of resources, we have additional powers and duties under the Act. These include 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.</li><li>• We have concluded that it is appropriate for us to use our powers to make a recommendation under section 24 of The Act due to the slow progress made by the Council in respect of responding to the recommendations made by the Local Government Association (LGA) in their Corporate Peer Review in 2017.</li></ul>



# Statutory Recommendation

## Recommendation made under section 24 of the Local Audit and Accountability Act 2014 ('the Act')

The Council needs to:

- Make demonstrable progress in relation to the eight recommendations that are made in the letter dated 16 March 2018 to the Chief Executive from the Local Government Association (LGA) in relation to the LGA Corporate Peer Challenge follow up visit to South Ribble Borough Council
- In particular, the two recommendations in relation to the management structure should be implemented as a matter of urgency which are to place particular focus in the short term upon:
  - Implementing the new senior management structure
  - Developing the leadership potential of the new senior team to take forward the place, strategic finance and transformation agendas

# Statutory Recommendation (continued)

## Reasons for making the recommendation

On 12 September 2016 the Authority's Scrutiny Committee issued its report following a review of the way in which an external licensing investigation had been handled by the Authority in 2015/16. The report highlighted a number of failings in the Authority's procedures, including a major corporate governance failure within the Authority, which resulted in significant damage to the Authority's reputation.

Due to this issue we issued a qualified 'except for' VfM Conclusion as it was evidence of weaknesses in proper arrangements for acting in the public interest, through demonstrating and applying the principles and values of good governance.

The Scrutiny Committee Task Force review into taxi licensing highlighted a number of serious governance concerns including:

- 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.

The Council therefore invited the LGA to complete a Corporate Peer Challenge. The 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.' Whilst there had been some positive action the Council were very much on the early stages of the improvement journey.

During the year we did see some progress made, including the regular meetings of the It Reference Group; the approval of a new Corporate Plan and the implantation of an Officer/Member protocol. We were aware however that the implementation of the new organisational structure, for example in relation to a new senior management structure and also in extending the shared service arrangement with Chorley Borough Council, was taking longer than anticipated.

As part of the original LGA Corporate Peer Challenge (CPC) in March 2017, South Ribble Borough Council (SRBC) asked the peer team to make a follow up visit approximately 12 months later to help review and assess progress in response to the peer challenge feedback and recommendations.

The LGA highlighted that the Council has made some progress in taking forward the recommendations of the original peer review team. The establishment of an Improvement Reference Group and a new organisational structure were two of the positives highlighted by the LGA.

However there were still a number of areas that required attention. Specifically the LGA highlighted:

- The pace of change remains too slow
- The lack of permanent senior capacity is hampering the ability to deliver members' vision for the borough
- Ongoing political issues causing distraction and delaying the improvement journey
- The MTFs requiring further development to take account of key strategic risks
- Better use of the IRG should be made to ensure that the focus on improvement within the council is maintained

To address these issues the LGA highlighted eight recommendations that the Council needed to focus on in the short-term. These focused on issues relating to:

- Political leadership resolving ongoing political tensions
- Implementing the new senior management structure
- Reviewing the Governance Committee
- Implementing the agreed approach to shared service
- Developing the leadership potential to take forward the key agendas.

We are aware that progress has remained slow in a number of these areas and, given the 2017/18 will be third year of qualifying the VfM Conclusion, we have concluded that we need to make a statutory recommendation in relation to progressing the recommendations made by the LGA.

# Independence and ethics

## **Independence and ethics**

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

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

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

## **Audit and Non-audit services**

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. There were no such services provided by Grant Thornton to the Council.

# Follow up of prior year recommendations

We identified the following issues in the audit of South Ribble Borough Council's 2016/17 financial statements, which resulted in five recommendations being reported in our 2016/17 Audit Findings report.

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	✓	Copy payslips and P11d's should be made available to support the amounts reported in the financial statements for senior management remuneration	Appropriate evidence has been provided.
2	✓	The Council needs to ensure that cash equivalents are only those highly liquid short term deposits where maturity is less than three months from the date the deposit was made.	Proper practice has been followed in 17/18 in relation to the classification of cash equivalents and short-term investments.
3	✓	The Council needs to ensure that the audit team receives a response to the letters to the two valuers sent as part of our assessment of the competence, expertise and objectivity of management experts used.	The letters in 17/18 have been received as appropriate.
4	X	The Council needs to continue to develop its detailed project plans for the schemes highlighted in the medium term financial strategy to continue to deliver a balanced budget.	Some work has taken place. However, comments in the LGA reports and the delay in the shared service developments highlights that this recommendation has not been fully implemented.
5	✓	Consider including comments in relation to all sources of income within the resource recognition policy.	Included in the recognition policy

#### Assessment

- ✓ Action completed
- X Not yet fully addressed

# Audit Adjustments

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

## Impact of adjusted misstatements

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

## Misclassification and disclosure changes

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

Item	Auditor comments	Adjusted?
<b>Cash flow Statement</b>	Two items in the cash flow were misstated by £120k. They were compensating errors with no impact on the accounts	✓
<b>Note 34 – Related Parties</b>	An additional related party was included for the following item: During 2017/18 Joanne Platt Associates Limited were paid £0.116m in respect of the temporary services of the Interim Improvement Manager (see also note 31 Officers' remuneration).	✓
<b>Various</b>	A number of minor rounding and typo issues were identified. Where appropriate the Council agreed to amend the accounts.	✓

# Audit Adjustments – Prior year

## Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2016/17 financial statements.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Reason for not adjusting
1 Our testing of expenditure identified that £446k of internal recharges were incorrectly included in the income and expenditure figures on the CIES. This means that both income and expenditure are overstated by £446k. The majority of this figure, £440k, related to the Neighbourhood, Environment and Asset Management line in the CIES.	0	0	Not material – no impact on reserves
2 Code para 3.4.2.101 highlights that the new requirements require full retrospective restatement in accordance with section 3.3, paragraph 3.4.2.31 and IAS 1.' The Code says at para 3.3.4.2 that as well as giving the reason for the restatement, 'for the current period and each prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected' should be disclosed. No such disclosure has been made.	0	0	No material impact on the understanding of the accounts
<b>Overall impact</b>	<b>£0</b>	<b>£0</b>	

# Fees

We confirm below our final fees charged for the audit..

## Audit Fees

	Proposed fee	Final fee
Council Audit	£43,923	£43,923
Grant Certification	£7,128	TBC
<b>Total audit fees (excluding VAT)</b>	<b>£51,051</b>	<b>TBC</b>

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA). Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'. The grant certification fee will be confirmed after we have completed our certification of the Housing Benefit claim in November 2018.

## Non Audit Fees

There have been no non-audit fees at South Ribble Borough Council

# Draft audit opinion

**We anticipate we will provide the Council with a modified audit opinion relating to the qualification on the VfM Conclusion and the Statutory Recommendation.**

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

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of South Ribble Borough Council (the 'Authority') for the year ended 31 March 2018 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Statement and all notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2018 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Interim Deputy Chief Executive (Resources and Transformation) and Section 151 Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Interim Deputy Chief Executive (Resources and Transformation) and Section 151 Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

#### Other information

The Interim Deputy Chief Executive (Resources and Transformation) and Section 151 Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts set out on pages 4 to 121 other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the course of our work including that gained through work in relation to the Authority's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.



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

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

### Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Matters on which we are required to report by exception

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

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in respect of the above matters except on 26 July 2018 we made written recommendations to the Authority in our Audit Findings Report under section 24 of the Local Audit and Accountability Act 2014 in relation to making demonstrable progress by implementing recommendations to address capacity and governance issues at the Authority highlighted by the Local Government Association in their letter to the Council on 16 March 2018.

### Responsibilities of the Authority, the Interim Deputy Chief Executive (Resources and Transformation) and Section 151 Officer and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on page 51, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Interim Deputy Chief Executive (Resources and Transformation) and Section 151 Officer. The Interim Deputy Chief Executive (Resources and Transformation) and Section 151 Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18, which give a true and fair view, and for such internal control as the Interim Deputy Chief Executive (Resources and Transformation) and Section 151 Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Interim Deputy Chief Executive (Resources and Transformation) and Section 151 Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the Authority.

The Governance Committee is Those Charged with Governance.

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

#### Qualified Conclusion

*On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, except for the effects of the matter described in the basis for qualified conclusion section of our report, we are satisfied that, in all significant respects, the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.*

#### Basis for qualified conclusion

In considering the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources we identified the following matter:

On 12 September 2016 the Authority's Scrutiny Committee issued its report following a review of the way in which an external licensing investigation has been handled by the Authority. The report highlighted a number of failings in the Authority's procedures, including a major corporate governance failure within the Authority which resulted in significant damage to the Authority's reputation.

In December 2016 the Cabinet endorsed the development of a detailed improvement action plan to address the issues raised by the investigation. A Peer Review by the Local Government Association (LGA) in March 2017 found that, whilst the initial actions outlined in the plan had been addressed, the pace of implementation remained slow.

In February 2018 a LGA Corporate Peer Challenge follow up visit to the Authority took place. The Peer Challenge found that some further progress had been made during 2017/18, but that the pace of change remains too slow, with progress being hampered by a number of issues, including the lack of permanent senior capacity and the need to develop a coherent approach to corporate planning, financial planning and strategic risk.

This matter is evidence of weaknesses in proper arrangements for acting in the public interest, through demonstrating and applying the principles and values of sound governance to support informed decision making.

### **Responsibilities of the Authority**

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

### **Report on other legal and regulatory requirements - Certificate**

We certify that we have completed the audit of the financial statements of the Authority in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Signature to be added

Mark Heap  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

4 Hardman Square  
Spinningfields  
Manchester  
M3 3EB

XX July 2018



© 2018 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.