



Annual Audit Letter

Year ending 31 March 2018

South Ribble Borough Council

24 August 2018



Contents



Your key Grant Thornton team members are:

Mark Heap
Director

T: (+44)161 234 6375
E: mark.r.heap@uk.gt.com

Simon Hardman
Manager

T: (+44)161 234 6379
E: simon.hardman@uk.gt.com

Richard Watkinson
Executive

T: (+44)161 234 6345
E: richard.watkinson@uk.gt.com

Section

1. Executive Summary
2. Audit of the Accounts
3. Value for Money conclusion

Page

- 3
5
10

Appendices

- A Reports issued and fees

Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at South Ribble Borough Council (the Council) for the year ended 31 March 2018.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that 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 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 26 July 2018.

Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £850,000, which is 2% of the Council's gross revenue expenditure.
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 31 July 2018.
Whole of Government Accounts (WGA)	No work was required on the WGA return as the Council's financial outturn, assets and liabilities were below the threshold.
Use of statutory powers	<p>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.</p> <p>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.</p>

Respective 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) (ISAs) and other guidance issued by the NAO.

Executive Summary

Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources 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 qualified our value for money conclusion in our audit report to the Council on 31 July 2018.
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 2018. We will report the results of this work to the Governance Committee in our Annual Certification Letter.
Certificate	We certify that we have completed the audit of the accounts of South Ribble Borough Council in accordance with the requirements of the Code of Audit Practice.

Working with the Council

During the year we have delivered a number of successful outcomes with you:

- We delivered an efficient audit with you in July, by the deadline and two months earlier than in previous years
- We held regular meetings with the Finance Team to ensure that the audit was delivered as efficiently as possible and that, where possible, issues were addressed prior to our year-end audit

- During the year we met several times with the Council's senior managers to gain an understanding of the challenges facing South Ribble and to share our varied publications and thought leadership reports
- We provided regular updates for the Governance Committee covering best practice, latest sector reports and our own thought leadership reports

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

Grant Thornton UK LLP
August 2018

Audit of the Accounts

Our audit approach

Materiality

In our audit of the Council's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating 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 the audit of the Council's accounts to be £850,000, which is 2% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We also set a lower level of specific materiality for the Senior Officer remuneration note and related parties.

We set a lower threshold of £43,000, above which we reported errors to the Governance Committee in our Audit Findings Report.

The scope of our audit

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

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

We also read the remainder of the Statement of Accounts, including the narrative report and annual governance statement (AGS) to check they are consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

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

Our audit approach is 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

Significant Audit Risks

These are the significant 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>Improper revenue recognition</p> <p>Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including South Ribble Borough Council, mean that all forms of fraud are seen as unacceptable <p>Therefore we do not consider this to be a significant risk for South Ribble Borough Council.</p>	<p>Our audit work did not identify any reason to change our rebuttal of the risk and no issues were identified.</p>
<p>Management override of controls</p> <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>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 identified management override of controls as a risk requiring special audit consideration.</p>	<p>As part of our audit we:</p> <ul style="list-style-type: none"> • gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness • obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness • evaluated the rationale for any changes in accounting policies or significant unusual transactions. 	<p>No issues were identified and there was no evidence of management overriding controls</p>

Audit of the Accounts

Significant Audit Risks

These are the significant 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 property, plant and equipment</p> <p>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.</p> <p>We identified land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p>As part of our audit work we;</p> <ul style="list-style-type: none"> • reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • gave consideration to 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. 	<p>No issues were identified and the financial statements presented for audit were materially correct.</p>
<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 identified the valuation of the pension fund net liability as a risk requiring special audit consideration</p>	<p>As part of our audit work 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. 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 • undertook 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 	<p>No issues were identified and the financial statements presented for audit were materially correct.</p>

Audit of the Accounts

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 31 July 2018, meeting the national deadline.

Preparation of the accounts

The Council presented us with draft accounts in accordance with the national deadline, and provided a detailed set of working papers to support them. Both the Council's own officers and the members of the shared financial services team responded appropriately to our queries during the course of the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit to the Council's Governance Committee on 26 July 2018.

We did identify a small number of issues that resulted in the statement of accounts being amended, but none of these impacted on the financial position of the Council.

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website in the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. Whilst a few relatively minor amendments were made following our audit we found that both documents are consistent with the financial statements prepared by the Council and also with our knowledge of the Council.

Certificate of closure of the audit

We are also required to certify that we have completed the audit of the accounts of South Ribble Borough Council in accordance with the requirements of the Code of Audit Practice.

Other statutory powers

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.

Following a corporate governance failure, reported by the Council's Scrutiny Committee in September 2016, the Council invited the Local Government Association (LGA) to complete a Corporate Peer Challenge. The results of this challenge were reported to the Council in April 2017 and it recognised that the Council was very much on the early stages of the improvement journey.

As part of the original LGA Challenge, the Council 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.

At its follow-up visit, 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 that:

- 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 were causing distraction and delaying the improvement journey
- the Medium Term Financial Strategy (MTFS) required further development to take account of key strategic risks

The above resulted in our VfM Conclusion being qualified for the third year in succession. Given these circumstances, we have also made a statutory recommendation under section 24 of the Local Audit and Accountability Act 2014, which is set out on the following page.

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

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 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 overleaf.

Given the link between the statutory recommendation set out on the previous page and the findings from our VfM Conclusion review, we did not make any further recommendations within our Audit Findings Report presented to the Governance Committee on 26 July 2018.

Overall Value for Money conclusion

We are satisfied that, in all significant respects, 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, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2018.

We note that progress is being made in several areas, including corporate planning and capacity issues. However, it is the overall pace of change that is the key issue. The Council needs to ensure that there is a permanent management team in place with sufficient capacity to allow continued development of its approach to planning and delivery.

Value for Money conclusion

Key Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Governance challenges</p> <p>For the year ended 31 March 2017 we qualified our 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>We will review the progress made by the Council in responding to the governance challenge by consideration of further external reviews; review of the Improvement Reference Group and discussions with key officers.</p>	<p>As part of our work we reviewed the progress made by the Council in responding to the governance challenge by:</p> <ul style="list-style-type: none"> • consideration of further external review • review of the Improvement Reference Group outcomes; and • discussions with key officers. 	<p>In 2015/16, we qualified the Council's VfM Conclusion due to matters identified in respect of the Scrutiny Committee Task Force review. 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 positives were evident and included :</p> <ul style="list-style-type: none"> • the improvement reference group met throughout the year • a new corporate plan was prepared and issued • the Member / Officer Protocol has been approved • satisfaction with the Council remains high • financially the Council are in a relatively healthy position <p>However, as highlighted during the LGA revisit, reported to the Council in March 2018, 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 a number of interim appointments. The management structure changes resulted in two permanent Directors leaving the Council at the end of 2017.</p> <p>The organisational uncertainty has not been helped by:</p> <ul style="list-style-type: none"> • Some uncertainty over the development of further shared services • Changes in the personnel fulfilling the role of the s151 officer, which the Council has attributed to the shared service issue <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 it also concluded that 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>We therefore concluded that, in all significant respects, 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, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2018.</p>

Value for Money conclusion

Key Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Financial Planning and Management</p> <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>We reviewed the arrangements the Council has in place to manage and plan its finances over the short and medium term. We did this by considering the Council's arrangements in place to develop financial plans and how it reports its financial position. We also considered the role of the s151 Officer at the Council by comparing the role to CIPFA guidance on the role of the Chief Finance Officer</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 itself. 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"> • 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 considered briefly 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 • 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 by the same Member Committees. Such practice allows service and financial performance to be considered together to allow appropriate overview. The Council's finance report however, is presented to the Governance Committee., Our review of the Constitution lacks clarity in relation to where the finance report should be considered • The finance report shows variances by type of spend, rather than by service provision, making it more difficult to analyse overspend by service <p>We concluded overall that, in relation to this specific risk covering financial planning and management, the Council has appropriate arrangements to deploy resources to achieve planned and sustainable outcomes for taxpayers and local people.</p>

A. Reports issued and fees

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

Reports issued

Report	Month issued
Audit Plan	April 2018
Audit Findings Report	July 2018
Annual Audit Letter	August 2018

Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory Council audit	43,923	43,923	43,923
Housing Benefit Grant Certification	7,128	TBC*	6,968
Total fees	51,051	TBC*	50,891

The planned fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

* The fee for housing benefit grant certification will not be finalised until we have completed our work in November 2018.

Fees for non-audit services

Service	Fees £
Audit related services	0
- None	
Non-Audit related services	0
- None	

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. No non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.



© 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.