

# The Audit Findings For South Ribble Borough Council

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Year ended 31 March 2019

11 December 2020



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A. Audit Adjustments

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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.

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# Headlines

This table summarises the key findings and other matters arising from the statutory audit of South Ribble Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2019 for those charged with governance.

<p><b>Financial Statements</b></p>	<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements:</p> <ul style="list-style-type: none"> <li>• give a true and fair view of the financial position of the Council and its income and expenditure for the year; and</li> <li>• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.</li> </ul> <p>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Our audit work was completed during June and July 2019, and August to November 2020. Our findings are summarised on pages 6 to 24.</p> <p>We identified two significant error that the Council have decided not to adjust for. This relates to under provision of pension liabilities following the McCloud rulings (£0.380m), and the overprovision for business rate appeals (£0.497m).</p> <p>We have not made any material adjustments to the financial statements. We have identified a number of minor errors. These are detailed later in this report.</p> <p>We have been made aware of issues with regard to management override of control and have identified deficiencies in control. These are detailed later in this report. We have increased our testing to compensate for these issues.</p> <p>We note that the council's management of the potential pension liability with regard to the leisure services contract has been poor. We discuss this on page 18 and 19.</p> <p>We note that the Council's poor management of the Health and Well-Being Campus plan resulted in abortive costs of c.£275,000.</p> <p>Our audit of the financial statements has been significantly delayed. We discuss the causes of this in detailed in the report but in summary the delays have resulted from:</p> <ul style="list-style-type: none"> <li>• Council governance – there have been significant governance failings at the Council. We have needed to delay our work to enable the Council's own enquiries to be completed. We have also had to input a significant level of senior resource to fully understand the nature of the governance issues</li> <li>• Council Control issues – the Council identified significant control issues including potential management override of control in March 2019. In response we reduced our materiality levels to increase the level of testing undertaken.</li> <li>• Financial statement issues - during the audit we also identified a potential pension liability relating to the Council's contract with SRCLL for leisure services. This issue was raised with the Council in September 2020. At c.£2 million this is material to the Council. Additional disclosure has been made in the financial statements with regard to this contingent liability</li> <li>• Provision of information – due to the impact of Covid – 19 the audit has been undertaken remotely. While the Council have worked co-operatively with us the finance team has struggled to provide us with the requested information in a timely manner. We discuss this later in the report</li> <li>• Audit Quality – guidance from FRC during 2020 has resulted in additional work on significant risk areas such as Property valuation and pension valuation. This has resulted in additional work for the audit team and the Council.</li> <li>• External Audit team – due to the passage of time and absence amongst the original audit team there have been a number of changes from the original team. This has added to the delays.</li> </ul>
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# Headlines

This table summarises the key findings and other matters arising from the statutory audit of South Ribble Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2019 for those charged with governance.

<b>Financial Statements</b>	<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements:</p> <ul style="list-style-type: none"><li>• give a true and fair view of the financial position of the Council and its income and expenditure for the year; and</li><li>• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.</li></ul> <p>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<b>Completion of the audit</b> <p>Our work is substantially complete subject to the following outstanding matters;</p> <ul style="list-style-type: none"><li>- agreement of leasing disclosures</li><li>- receipt of management representation letter {attached as a separate agenda item}</li><li>- review of the final set of financial statements</li></ul> <p>There are no matters of which we are aware that would require modification of our audit opinion (attached as a separate agenda item) or material changes to the financial statements. We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited.</p> <p>Our anticipated audit report opinion will be unqualified.</p>
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# Headlines

This table summarises the key findings and other matters arising from the statutory audit of South Ribble Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2019 for those charged with governance.

## Value for Money arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').

We have completed our risk based review of the Council's value for money arrangements.

We have concluded that South Ribble Borough Council does not have proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We consider that the Council has appropriate management arrangements in place for ensuring its financial sustainability.

The Council has publicly acknowledged the governance failings that were in place during 2018/19 and which continued, at least in part, into 2019/20. The Annual Governance Statement considered in draft form by the Governance Committee in June 2020 sought to highlight all of the issues and to put in place a very clear and robust action plan to implement and embed a strengthened governance framework. This action plan was deliberately front-loaded to accelerate the deliver of improvements that had commenced during 2019/20.

We note the openness and transparency of the Council. We agree with its view that the Council made limited progress in improving its governance or performance management throughout 2018 and 2019. There have continued to be significant issues with regard to management, members, performance management, and the Council's control environment, including procurement. We consider that these issues have significantly impacted on the Council's ability to provide appropriate services to the people of South Ribble.

We note that from September 2019 greater progress has been made by the Council, for example, through the issue of a refreshed Corporate Plan in September 2019 and 2020. The Council needs to ensure that the actions that it has taken are embedded across services.

We therefore anticipate issuing an adverse value for money conclusion. Our findings are summarised on pages 24 to 38.

## Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- To certify the closure of the audit.

Due to the deficiencies outlined above we plan to issue a statutory recommendation to the Council, under Section 24 of the Act. We will require a formal response to this matter.

We have not exercised any other additional statutory powers or duties.

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.

# Summary

## Overview of the scope of our audit

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

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

## Audit approach

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

- An evaluation of the Council's internal controls environment, including its IT systems and controls;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have had to alter our audit plan, as communicated to you on 14<sup>th</sup> March 2019.

We have substantially reduced our materiality levels in response to the significant governance failures at the Council and the potential management override of control. We discuss this in detail overleaf.

## 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 16 December 2020, as detailed in our audit report. These outstanding items include:

- receipt of management representation letter {attached as a separate agenda item}
- 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 remain the same as reported in our audit plan. We detail in the table below our determination of materiality for South Ribble Borough Council.

	Initial plan (£)	Revised plan (£)
Materiality for the financial statements	0.864m	0.616m
Trivial matters	0.043m	0.031m

# Summary

## Overview of the scope of our audit

As outlined overleaf, we have substantially reduced our materiality levels in response to the significant governance failures at the Council and the potential management override of control. We have provided more detail on the additional testing below:

- Council governance – there have been significant governance failings at the Council. We have needed to delay our work to enable the Council's own enquiries to be completed. We delayed our audit from July 2019 to July 2020 while Council completed a series of governance reviews. The Council's reviews and disciplinary processes were completed in July 2020. We recommenced our audit in August 2020. We have also had to input a significant level of senior resource to fully understand the nature of the governance issues
- Council Control issues – the Council identified significant control issues including potential management override of control in March 2019. We also identified significant weaknesses in the Council's journal control. In response we have:
  - Reduced our materiality level. This has resulted in additional testing across all balances
  - Increased our testing of journals.
- Financial statement issues - during the audit we also identified a potential pension liability relating to the Council's contract with SRCLL for leisure services. This issue was raised with the Council in September 2020. We have yet to receive a response to our queries on this matter. At c.£2 million this is material to the Council.
- Pensions (McCloud) – we have undertaken additional work with regard to the Council's pension fund following the McCloud and GMP judgements
- Pensions (SRCLL) - during the audit we also identified a potential pension liability relating to the Council's contract with SRCLL for leisure services. This issue was raised with the Council in September 2020. At c.£2 million this is material to the Council. Additional disclosure has been made in the financial statements with regard to this contingent liability
- Provision of information – due to the impact of Covid – 19 the audit has been undertaken remotely. While the Council have worked co-operatively with us the finance team has struggled to provide us with the requested information in a timely manner. Examples of delays include:
  - Management enquiries – raised request 26 August 2020. Received 17 November
  - Going concern – raised request 14 September 2020. Not received as at 23 November
  - Investment confirmations – raised request July 2019 for confirmations with regard to £6m with the Bank of Scotland. These remain outstanding.
- Audit Quality – guidance from FRC during 2020 has resulted in additional work on significant risk areas such as Property valuation and pension valuation. This has resulted in additional work for the audit team and the Council. For example, combined with the reduced materiality level this increased our sample for investment properties to 53 items
- External Audit team – due to the passage of time and absence amongst the original audit team there have been a number of changes from the original team. This has added to the delays.

# Significant findings – audit risks

## Risks identified in our Audit Plan

## Commentary

1

### The revenue cycle includes fraudulent transactions (rebutted)

Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.

This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition

### Auditor commentary

Having considered the risk factors set out in ISA 240 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 and this is unchanged from the assessment reported in the audit plan.

### Work performed

We have:

- evaluated the Council's accounting policy for recognition of revenues for appropriateness;
- performed substantive testing on material revenue streams; and
- Reviewed unusual significant transactions.

### Key findings

Our audit work has not identified any issues in respect of improper revenue recognition.

2

### Management override of controls

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

### Auditor commentary

We identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk.

### Work performed

We have undertaken the following work in relation to this risk:

- gained an understanding of, management's controls over journals, the accounting estimates, critical judgements applied and decisions made by management and considered their reasonableness;
- obtained a full listing of journal entries, identified and tested unusual and significant journal entries recorded during the year and after the draft accounts stage for appropriateness and corroboration; and
- evaluated the rationale for any changes in accounting policies or significant unusual transactions.

### Key findings

Our audit work has not identified any issues in respect of management override of controls.

We, however, note the following issue. Journals - there are no journal limits and journals do not require authorisation by a second officer. We consider this to be a significant failure in control. We also note that the Council has identified procurement areas where management override of control may have occurred.

We consider that these are significant failures in the Council's control environment and have raised recommendations later in this report.

# Significant findings – audit risks

## Risks identified in our Audit Plan

3

### Valuation of land and buildings (Rolling valuation)

The Council revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial estimates due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.

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

## Commentary

### Auditor commentary

We identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement and a key audit matter.

We have undertaken the following work in relation to this risk:

- reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;
- considered the competence, expertise and objectivity of any management experts used;
- reviewed the basis on which the valuation is carried out and challenged 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 and financial statements; and
- Evaluated the assumptions made by management for those asset not revalued during the year and how management has satisfied themselves that these are not materially different to current value.

Our audit work has not identified any misstatements in respect of valuation of land and buildings. However, we have raised concerns with regard to the timeliness of the Council's cyclical valuation process in the estimates section of this report.

# Significant findings – audit risks

## Risks identified in our Audit Plan

## Commentary

4

### Valuation of pension fund net liability

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

The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.

### Auditor commentary

We identified valuation of the Council's pension fund net liability, as a significant risk, which was one of the most significant assessed risks of material misstatement and a key audit matter.

We have undertaken the following work in relation to this risk:

- identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement;
- evaluated the competence, expertise, objectivity and scope of work of the actuary who carried out your pension fund valuation;
- gained an understanding of the basis on which the valuation is carried out, including assessing the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability;
- checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary;
- undertaken procedures to confirm the reasonableness of the actuarial assumptions made, by reviewing the report of our consulting actuary (auditor's expert) and performing additional procedures suggested within their report.

Our work has identified an understatement (£380,000) in the net defined pension liability resulting from a sector wide issue in relation to the McCloud judgment which became apparent at a national level after the submission date of the Council's draft accounts. To summarise, with regard to the McCloud case, in June 2019, the government was denied leave to appeal a ruling with regard to age discrimination in transitional arrangements in relation to defined benefit pension schemes. This ruling strengthened the firm's view that a liability should be recognised on the Statement of Financial Position. The Council has determined that it does not wish to adjust for this misstatement.

We also consider the GMP case. With regard to GMP, the findings of a national review in June 2019 suggested that pensions liabilities were further understated. The actuary has confirmed that there is no impact on the Council from this case.

The impact of these, and details of our work performed in this area are set out in greater detail on page 17. We obtained appropriate assurances from the auditor of Lancashire County Council Pension Fund (regarding the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements).

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

# Significant findings – key judgements and estimates

Accounting area	Summary of management's policy	Audit Comments	Assessment
Provisions for NNDR appeals - £3m	The Council are responsible for repaying a proportion of successful rateable value appeals. South Ribble's calculation is based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) for the 2010 listing and previous success rates. Whilst earlier outstanding appeals have fallen, the Council has included an estimate for appeals in 2017/18 and 2018/19 of approximately 4.8 per cent. To date appeals to the value of £xm have been made.	<p>We have:</p> <ul style="list-style-type: none"> <li>reviewed the appropriateness of the underlying information used to determine the estimate</li> <li>reviewed the impact of any changes to valuation method</li> <li>checked the consistency of estimate against industry practice</li> <li>agreed the reasonableness of the increase in estimate</li> <li>reviewed the adequacy of disclosure of estimate in the financial statements.</li> </ul> <p>The overall total provision is £4,583,000 of which 40% relates to SRBC, £1,833,000.</p> <p>At 31 March 2019, provision was made at 5.9% of net rates payable. The Council has subsequently reassessed its provision with the support of advisors. The assessed appropriate rate of the provision is 4% of net rates. If the Council had used this rate at 31 March 2019, then the Council's share of the provision would have been reduced by £497,000. We have classed this as an error. The Council has concluded that it does not wish to adjust for this matter.</p> <p>The provision is judgemental. Given that a number of appeals have not yet been made with regard to the 2017 listing for 2018/19 we have requested that the Council makes an enhanced disclosure with regard to this provision. It has also been covered as a significant judgement.</p>	

## Assessment

-  We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
-  We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
<b>Property, Plant &amp; Equipment</b>	<p>Other land and buildings (£24.18m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end.</p> <p>The Council has engaged Salloway Property Consultants to complete the valuation of other properties as at 31 March 19 on a five yearly cyclical basis. 10% of total assets were revalued during 2018/19.</p> <p>The valuation of properties valued by the valuer has resulted in a net increase of £0.35m. Management have considered the year end value of non-valued properties and the potential valuation change in the assets revalued at 31 March 19 through update and confirmed assurance from their valuer.</p> <p>Management's assessment of assets not revalued has identified no material change to the properties. This has been supported by a desktop review of assets by Sanderson Weatherall.</p>	<p>We have</p> <ul style="list-style-type: none"> <li>• undertaken an assessment of management's experts</li> <li>• reviewed the completeness and accuracy of the underlying information used to determine the estimate</li> <li>• reviewed the impact of any changes to valuation method</li> <li>• checked the consistency of estimate against near neighbours</li> <li>• agreed the reasonableness of the increase/decrease in estimate</li> <li>• reviewed the adequacy of disclosure of estimate in the financial statements.</li> </ul> <p>The Council uses a cyclical revaluation process. Of its £24.18m assets c. £16.8m have not been revalued since 31 March 2016. We reviewed the estimate and identified, using market indices increases, a potential understatement of leisure centre assets of £3m. We were able to gain assurance over the valuation in the financial statements on the basis of the desktop valuation undertaken by Sanderson Weatherall. We also noted that the Council has a significant backlog of maintenance of the leisure centres which would impact on the valuation.</p> <p>We consider that the Council should ensure that approximately 20% of its assets are reviewed on an annual basis.</p>	

## Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
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# Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment																								
<b>Net pension liability – £60.312m</b>	<p>The Council's [total] net pension liability at 31 March 2019 is £33.2m comprising the Lancashire Pension Fund Local Government and unfunded defined benefit pension scheme obligations. The Council uses Hyman Robertson to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £0.233m net actuarial loss during 2018/19, arising from changes in financial assumptions.</p>	<p>We have</p> <ul style="list-style-type: none"> <li>Undertaken an assessment of management's expert</li> <li>Reviewed and assessed the actuary's roll forward approach taken,</li> <li>Used an auditors expert (PWC) to assess the actuary and assumptions made by the actuary</li> </ul>																									
		<table border="1"> <thead> <tr> <th data-bbox="789 451 1286 515">Assumption</th> <th data-bbox="1286 451 1442 515">Actuary Value</th> <th data-bbox="1442 451 1597 515">PwC range</th> <th data-bbox="1597 451 1794 515">Assessment</th> </tr> </thead> <tbody> <tr> <td data-bbox="789 515 1286 586">Discount rate</td> <td data-bbox="1286 515 1442 586">2.4%</td> <td data-bbox="1442 515 1597 586">2.4 - 2.5%</td> <td data-bbox="1597 515 1794 586" style="text-align: center;"></td> </tr> <tr> <td data-bbox="789 586 1286 658">Pension increase rate</td> <td data-bbox="1286 586 1442 658">2.3%</td> <td data-bbox="1442 586 1597 658">2.2 – 2.3%</td> <td data-bbox="1597 586 1794 658" style="text-align: center;"></td> </tr> <tr> <td data-bbox="789 658 1286 729">Salary growth</td> <td data-bbox="1286 658 1442 729">3.7%</td> <td data-bbox="1442 658 1597 729">Employer specific</td> <td data-bbox="1597 658 1794 729" style="text-align: center;"></td> </tr> <tr> <td data-bbox="789 729 1286 843">Life expectancy – Males currently aged 45 / 65</td> <td data-bbox="1286 729 1442 843">25.1 / 22.8</td> <td data-bbox="1442 729 1597 843">24.8 – 26.3 / 22.5 – 23.7</td> <td data-bbox="1597 729 1794 843" style="text-align: center;"></td> </tr> <tr> <td data-bbox="789 843 1286 936">Life expectancy – Females currently aged 45 / 65</td> <td data-bbox="1286 843 1442 936">28.2 / 25.5</td> <td data-bbox="1442 843 1597 936">27.9 – 29.0 / 25.0 – 26.4</td> <td data-bbox="1597 843 1794 936" style="text-align: center;"></td> </tr> </tbody> </table>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.4%	2.4 - 2.5%		Pension increase rate	2.3%	2.2 – 2.3%		Salary growth	3.7%	Employer specific		Life expectancy – Males currently aged 45 / 65	25.1 / 22.8	24.8 – 26.3 / 22.5 – 23.7		Life expectancy – Females currently aged 45 / 65	28.2 / 25.5	27.9 – 29.0 / 25.0 – 26.4		
Assumption	Actuary Value	PwC range	Assessment																								
Discount rate	2.4%	2.4 - 2.5%																									
Pension increase rate	2.3%	2.2 – 2.3%																									
Salary growth	3.7%	Employer specific																									
Life expectancy – Males currently aged 45 / 65	25.1 / 22.8	24.8 – 26.3 / 22.5 – 23.7																									
Life expectancy – Females currently aged 45 / 65	28.2 / 25.5	27.9 – 29.0 / 25.0 – 26.4																									

We have also reviewed:

- the completeness and accuracy of the underlying information used to determine the estimate
- Impact of any changes to valuation method
- Reasonableness of the Authority's share of LPS pension assets.
- Reasonableness of increase/decrease in estimate
- Adequacy of disclosure of estimate in the financial statements

## Assessment

-  We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
-  We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
<b>Level 2 investment properties</b>	<p>The Council have investment properties that are valued on the balance sheet as at 31 March 2019 at £10.506m. The Council has engaged Sanderson Weatherall to complete the valuation of its investment properties. The Council's portfolio of investment property has been assessed as level 2. Level 2 investment properties, valued at a fair value have been measured using a market based approach which takes into account market conditions, recent sale prices and other relevant information for similar assets in the local area.</p> <p>There has been no change in the valuation techniques used during the year for investment property. The value of the investment properties have increased by £0.653m in 2018/19 mainly due to revaluation changes.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>assessed the competence, capability and objectivity of management's expert.</li> <li>reviewed the appropriateness of the underlying information used to determine the estimate.</li> <li>checked the reasonableness of increase/decrease in estimates</li> <li>ensured the adequacy of disclosure of estimates in the financial statements back to the valuer's reports.</li> </ul>	

## Assessment

-  We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
-  We consider management's process and key assumptions to be reasonable

# Significant findings – key judgements and estimates

## Summary of management's policy

### Net pension liability – Impact of McCloud Judgement and Guaranteed Minimum Pension (GMP)

#### McCloud ruling re age discrimination

In January 2017, the Employment Tribunal ruled that transitional provisions in the New Judicial Pension Scheme (NJPS) were unlawfully age discriminatory because they were not objectively justified. The Tribunal found that a group of claimant judges had been subject to age discrimination when they were transferred to the NJPS established in April 2015 while under transitional provisions older colleagues were able to remain in the existing Judicial Pension Scheme (JPS). The JPS is a final salary scheme whereas the NJPS is a career average revalued earnings scheme.

Firefighters had brought a similar age discrimination case and the Employment Tribunal ruled that similar transitional provisions were a proportionate means of achieving a legitimate aim and so did not give rise to unlawful age discrimination. Firefighters appealed the ruling and in December 2018 the Court of Appeal looked at both the judges and firefighters' cases and ruled that there was age discrimination in the judges and firefighters pension schemes where there was transitional protections given to scheme members.

This in turn applies to the Local Government Pension Scheme. Where the transitional provisions are unlawful then those members who are found to have been discriminated against will need to be offered appropriate remedies to ensure they are placed in an equivalent position to the protected members.

The Government applied to the Supreme Court for permission to appeal and on 27 June 2019 it was announced this was denied.

The Council had not included a disclosure relating to these matters on the basis that, in their view, because the government was seeking permission to appeal the Court of Appeal decision, which would not be known until July, and therefore a present obligation did not exist.

## Audit Comments

The firm's view is that the McCloud judgement gives rise to a past service cost and liability within the scope of IAS 19 as the ruling created a new obligation.

IAS 19.61 states 'An entity shall account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices.' Our view is based on the fact there is a legal obligation. As set out in IAS 37.10, 'A legal obligation is an obligation that derives from:.....(c) other operation of law' i.e. the Court of Appeal ruling.

The IAS 37 criteria was considered to determine if a liability exists i.e. is there a present obligation as a result of a past event, is it probable that an outflow of resources will be required to settle the obligation and can a reliable estimate be made. Where there is a liability, it would be accounted for under IAS 19 due to the IAS 37 scope exclusion in respect of employee benefits (IAS 37.5d).

On the 12<sup>th</sup> June 2019 we wrote to all our local government clients setting out our views and recommending that bodies ask their actuaries to re-run the IAS19 reports with the actuary reflecting the best estimate for restitution and providing sensitivity analysis for key assumptions.

On the 8<sup>th</sup> July 2019, the Council received further information from its Actuary, Mercers, with regard to the impact of the McCloud judgement. This identified an understatement of pension benefit liabilities of £585,000 and an understatement of the fair value of plan assets of £205,000. the net impact is an understatement of pension fund liabilities of £380,000.

The additional report has been subject to additional audit procedures around the assumptions and methodology used. On that basis, we are satisfied that the estimated understatement of the liability, individually and in conjunction with other identified unadjusted misstatements, is below materiality. The Council has chosen not to adjust for this error.

We note that the Council's disclosures were updated to reflect the outcome of the McCloud decision and the understatement has been included in our schedule of unadjusted misstatements.

## Assessment



# Significant findings – key judgements and estimates

## Summary of management's policy

## Audit Comments

## Assessment

### Net pension liability – Impact of McCloud Judgement and Guaranteed Minimum Pension (GMP)

#### Guaranteed Minimum Pension (GMP)

On 26 October 2017 the High Court delivered its decision in a case involving Lloyds Bank, concerning the equalisation of Guaranteed Minimum Pensions (GMPs). The High Court ruled that GMPs must be equalised between men and women and that past underpayments must be corrected.

Bodies will be impacted by the High Court decision where they have a defined benefit pension scheme and were contracted out of the State Second Pension in the period from 17 May 1990 to 5 April 1997. For affected bodies, the impact will be to amend the defined benefit pension obligation.

In March 2016 the Government announced an "interim solution" for members in public service schemes who reach State Pension Age (SPA) between 6 April 2016 and 5 December 2018. In January 2018 they decided to extend this solution for a further two years to April 2021.

The PwC review of actuarial firms, prepared for the National Audit Office, identified that actuaries have taken differing approaches to the change in the defined benefit pension obligations that results from Guaranteed Minimum Pension equalisation.

The 2018/19 PwC report highlights that paying the additional increases through the LGPS increases the costs of the benefits and hence the liabilities for employers, and that this liability should be included in the accounts.

The PwC report highlighted that auditors would need to consider the impact of this based on their individual materiality levels. We therefore requested that the Council approach their actuary, Hymans, with a view to obtaining updated information in relation to the scale of this understatement.

In July 2019, the Council received a report from Mercers which reported the following:

'the natural conclusion for the main public service pension schemes including the Local Government Pension Scheme is that it is not appropriate for any provision to be included for the effect of the Lloyds Bank judgment, at least at the present time, and so we have not made any allowance for any additional liabilities at this stage. This is consistent with previous accounting disclosures.'

#### Conclusion

The additional report has been subject to additional audit procedures around the assumptions and methodology used. On that basis, we are satisfied with the conclusion reached by the Council.



#### Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# Significant findings - 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

Management have responded to the questions we set out on going concern in our “Informing the Risk Assessment” document as well as provided their assessment which confirms:

- There are no events of which they are aware which would indicate a material uncertainty on the Council's ability to continue as a going concern. This extends but is not limited to at least twelve months to December 2021.
- The Authority monitors cash flow on a daily basis. We have obtained a detailed cash flow forecast for a period of 12 months to December 2021. Forecasts do not indicate a material uncertainty around going concern.
- Adjusting for the LGPS liability (which is absorbed by the pension reserve under a statutory override) the Council has a strong balance.

### Auditor commentary

The going concern assumption is a fundamental principle in preparing financial statements. Under this principle, the Council is deemed to be a going concern for the foreseeable future. The statutory duties undertaken by the Authority and the method in which funding is raised and provided by central Government are set to continue. There is no intention to cease trading or seek protection from creditors.

The Council has a Medium Term Financial Strategy (MTFS) which is regularly reviewed with the medium term financial outlook updated to reflect the forecast financial position of the Council going forward.

The Council has significant levels of short term investments and reserves which should support it through the current pandemic and the impact of Brexit.

In addition based on our own review of the Authority, we are aware that the Authority has set an "approved budget" for 2019/20, 2020/21 and has a medium term financial strategy. The going concern assessment includes a cash flow forecast. The cashflow forecast (which has been subject to audit procedures such as arithmetical checks and sensitivity analyses) does not indicate any signs of significant financial difficulty that would cause concern.

The Council is able to borrow to meet short or long term cashflow needs.

As such we consider that the assessment undertaken by the Authority on going concern is a reasonable and valid one and there are no indications of material uncertainty.

## Work performed

- Detailed review of draft financial statements and forecasts;
- Audit procedures performed on forecasting documents as outlined above.

## Auditor commentary

- We did not identify a material uncertainty around going concern.
- We are satisfied that the level of disclosure around the going concern assertion is sufficient within the Council's financial statements.

## Concluding comments

## Auditor commentary

- We anticipate issuing an unqualified audit opinion.

# Significant findings - other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any other significant findings identified during the year.

## Issue

1

### Accounting for the Leisure Services pension liabilities

- In 2005/06 the Council's leisure centre operation transferred to South Ribble Community Leisure Limited (SRCLL), which is a company with charitable objectives. The Council pay SRCLL a Leisure Services Fee for the running of its leisure centres. The contract with SRCLL is for a period of 15 years and 10 months which commenced on 1 June 2005. We understand that the agreement ends in March 2021.
- The accounts for SRCLL that show a pension related liability of c£2m. It is unclear from the contract agreements available whether the Council or SRCLL is responsible for this liability at the cessation of the contract.
- We raised this issue with the Council. Officers are currently considering the relevant contract information.

### Auditor view

We reviewed the Employee transfer agreement and the Admission agreement

We note that the Employee transfer agreement clause 5.3 says that the Trust and Serco for transferring employees will indemnify the Council for liabilities relating to changes in age, demographic composition etc. But it specifically excludes movement in the stock market or other investment facilities. As such, the Council is potentially liable for the pension deficit relating to changes in the value of the stock market and investment facilities

We note that the Admission agreement, clause 9.1 states that the actuarial risk at the start of the agreement was £nil. By this it appears that any pension deficit at the start of the agreement would have also been £nil. Clause 9.2 and 9.3 deals with the management of a bond that should have been set aside to meet any pension liabilities. This indicates that the bond started at £nil and should have been reviewed annually to cover the risk exposure to a pension deficit. The responsibility for ensuring the review takes place appears to rest with the Administering Authority (the pension fund) and the Transferor Scheme employer (the Council). There is a requirement for the bond to be increased as needed.

From the information available to us we have concluded that:

- the Council has not been monitoring the pension liability and bond on an annual basis
- the value of the bond as at 31 March 2019 and 31 March 2020 was c£45,000
- the Trust and Serco have not formally accepted liability for the pension deficit.
- the Trust does not have sufficient resources to meet the pension liability. The liability would therefore need to be met by the bond or Serco or the Council. The bond is insufficient to meet the liability.

The monitoring officer has stated

'I, as chief legal officer, have considered the risk to the Council in relation to the pension liability. Under the terms of the admission agreement, primary liability for any pension fund shortfall sits with the Leisure Trust and SERCO jointly. It is acknowledged that there is a residuary risk to SRBC should both the Leisure Trust or SERCO fail to discharge their liability. This has been managed through the admission agreement which requires SERCO to maintain a bond in favour of the Pension Fund to meet any shortfall. The bond valuation is to be assessed by the Pension Fund actuary.

# Significant findings - other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any other significant findings identified during the year.

## Issue

1

### Accounting for the Leisure Services pension liabilities

- In 2005/06 the Council's leisure centre operation transferred to South Ribble Community Leisure Limited (SRCLL), which is a company with charitable objectives. The Council pay SRCLL a Leisure Services Fee for the running of its leisure centres. The contract with SRCLL is for a period of 15 years and 10 months which commenced on 1 June 2005. We understand that the agreement ends in March 2021.
- The accounts for SRCLL that show a pension related liability of c£2m. It is unclear from the contract agreements available whether the Council or SRCLL is responsible for this liability at the cessation of the contract.
- We raised this issue with the Council. Officers are currently considering the relevant contract information.

### Auditor view

'It is accepted that the indemnity in the employee transfer agreement excluded some bases for a deficit, but this does not impact on the liability of SERCO to the Pension Fund, only the acknowledgement of that liability by the Leisure Trust / SERCO to SRBC. At this point it is not clear why there is a deficit and whether this exclusion from the indemnity should apply. SERCO have been contacted to confirm their position on the indemnity. The risk would only materialise should the Pension Fund elect to pursue SRBC. This would seem unlikely given the contractual liability in the Admission Agreement which includes the requirement to have a bond.'

The proposed approach in the statement of accounts to the liability is appropriate to the risk.'

The following contingent liability note has been added to the financial statements

'In 2005/06 the Council's leisure centre operation transferred to South Ribble Community Leisure Limited (SRCLL), which is a company set up with charitable objectives. Serco Leisure Operating Ltd (SLOL) manage the services from the council's leisure sites with payments made by South Ribble Council via SRCLL. The agreement ends in March 2021. The accounts at SRCLL indicate a pension related liability of c£2m. Within the agreement SLOL are required to indemnify for any shortfall in pension liabilities. The contract specifies that this indemnity should be attained though SLOL providing a bond to mitigate this risk exposure. As such, South Ribble Council is not deemed to be exposed to any outstanding pension liability risk associated with this contract terminating. However, as the value of the bond to be attained by SLOL is not yet fully ascertained, a contingent liability has been deemed to exist at 31 March 2019.'

We are satisfied that the Council's liability is contingent.

We consider that the Council's management of this issue has been poor. The Council should have actively monitored the bond to ensure that it was adequate to meet any pension liability of the Trust. It is not clear that the Trust and SERCO will accept this liability at which point the Council may become liable to make good the pension deficit.

# Significant findings - Controls

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any other significant findings identified during the year.

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## Issue

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### Procurement and contract management

The Council's Internal Auditors have reported that the Council did not follow its procurement procedures with regard to the a leisure contract. In particular we note that the Council:

- Appointed an advisor costing c.£766,000 more than the cheapest alternative
- Identified that the project could over run by £9.6m if immediate action was not taken.

We consider that is a serious failing in the Council's controls.

### Auditor view

- As a matter of urgency the Council should strengthen its control over contract procurement and management

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### Journals

There are no journal limits and journals do not require authorisation by a second officer. We consider this to be a significant failure in control.

### Auditor view

- As a matter of urgency the Council should strengthen its control over journals

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### Procurement

The Council's Internal Auditors have reported that the did not follow its procurement procedures with regard to the retendering of gas and electricity contracts. While there was no identified loss to the Council from this procurement we consider this to be poor.

### Auditor view

- As a matter of urgency the Council should strengthen its control over contract procurement
-

# Significant Findings - Other issues

This section provides commentary on new issues and risks which were identified during the course of the audit.

## Issue

### Income cut - off

- We sample tested 27 items to ensure that expenditure was accrued into the correct year.
- Of the items tested we identified 5 items that had not been accrued appropriately into 2018/19. The extrapolated error was £34,667.
- Management noted that the Council did not have a minimum amount for accruals in either financial year (2018/19 & 2019/20).

### Auditor view

- We are satisfied that the accounts are not material misstated. However, we consider that the Council should introduce an appropriate income accruals policy.

### Debtors

- The Housing Benefit subsidy debtor in the financial statements is £836,671. However the Interim subsidy claim shows balance due of 882,692. The the debtor is understated by 43k.

- We are satisfied that the accounts are not material misstated. The Council has not adjusted for this error.

### Expenditure cut - off

- We identified two items where creditors were raised but the order subsequently cancelled. This resulted in creditors being overstated by £10,713. We calculated the extrapolated error as £242k.

- We are satisfied that the accounts are not material misstated. The Council has not adjusted for this error.

# Significant Findings - Disclosure issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant disclosure issues identified during the year.

## Issue

### Grants

- Grant transactions were omitted from the Note 33 in the draft accounts. Within Note 33, 'Grants and Contributions - Other' within the Credited to Services bracket did not include a full analysis of grants. The figure has been changed from £1,259k to £2,038k.

### Auditor view

- The disclosure error has been amended.

### Financial statements

Due to the delay in the completion of the audit we requested that the Council update the following items

- Narrative report
- Outlook for the future
- Going concern
- AGS
- Events after the reporting date.

### Auditor view

- The disclosures have been amended.

### Financial statements

- Note 1 to the accounts contains the Expenditure and Funding Analysis. The note is displayed in the Council's financial statements prior to the primary financial statements. We consider that this should follow on from the main financial statements.

### Auditor view

- The Council has made this adjustment.

# 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 Audit Committee. We were made aware of several incidences of potential management of control. We adjusted our audit strategy to take account of this issue.</li> <li>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>We are not aware of any related parties or related party transactions which have not been disclosed.</li> </ul>
③ <b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>We were made aware of several incidences of potential management of control and non compliance with the Council's policies and procedures.</li> <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 letter of representation has been requested from the Council, which is appended.</li> </ul>
⑤ <b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We requested from management permission to send confirmation requests to the Council's bank and short term investment managers. As at the report date, we await return of confirmations from balances of £6 million.</li> </ul>
⑥ <b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review noted disclosure omissions springing from the sector wide issues around the impact of the McCloud decision and GMP on LGPS liabilities. This is discussed in greater detail earlier in the report (p18). There are other disclosure changes with regard to the leisure pension fund liability and business rate appeals. Other notes have been updated due to the passage of time.</li> </ul>
⑦ <b>Audit evidence and explanations/significant difficulties</b>	<ul style="list-style-type: none"> <li>We have highlighted on page 7 the reasons for the significant delays in the audit and the difficulties encountered.</li> </ul>

# Other responsibilities under the Code

Issue	Commentary
<b>1 Other information</b>	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>Management have restated the AGS and Narrative report as they do not fit with our current knowledge of the Council. We are satisfied with the restated AGS and Narrative report.</p>
<b>2 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>Management have restated the AGS as it does not fit with our current knowledge of the Council. We are now satisfied with this disclosure.</p> <p>We have determined that it is appropriate for us to issue statutory recommendations under s24 of the Local Audit and Accountability act 2014. We detail our recommendation at page 41 to this report.</p>
<b>3 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> <p>However, the Council is below the threshold (as set out in the Group Instructions) and therefore no further work is required.</p>
<b>4 Certification of the closure of the audit</b>	<p>We intend to certify the closure of the 2018/19 audit of South Ribble Borough Council in the audit opinion.</p>

# Value for Money

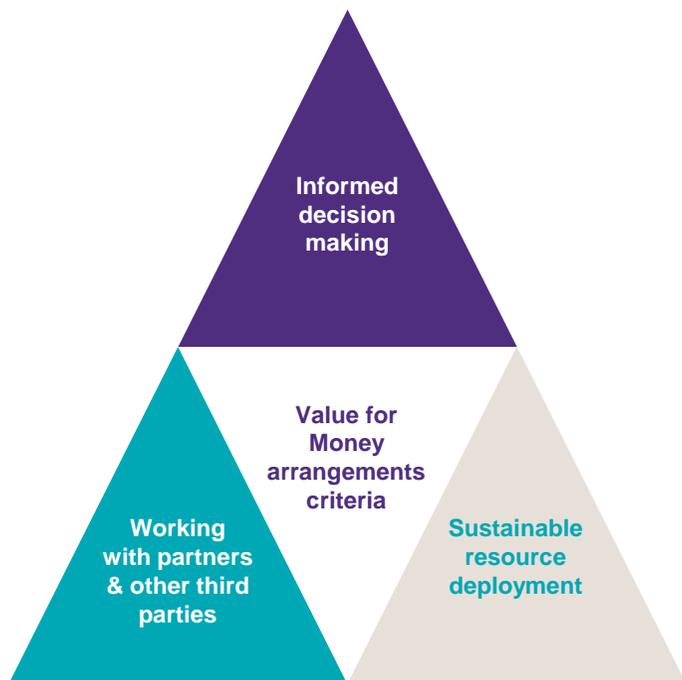
## Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 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 February 2019 and identified significant risks with regard to financial sustainability and the governance of the Council, in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated this risks to you in our Audit Plan dated February 2019.

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.

# 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:

- Whether the Council had satisfactory arrangements in place to plan, manage and deliver its finances over the medium term
- the progress made by the Council in responding to our statutory recommendation and the governance challenges faced by the Council.

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 page 20.

## Overall conclusion

We have concluded that South Ribble Borough Council does not have proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We consider that the Council has appropriate management arrangements in place for ensuring its financial sustainability.

The Council has publicly acknowledged the governance failings that were in place during 2018/19 and which continued, at least in part, into 2019//20. The Annual Governance Statement considered in draft form by the Governance Committee in June 2020 sought to highlight all of the issues and to put in place a very clear and robust action plan to implement and embed a strengthened governance framework. This action plan was deliberately front-loaded to accelerate the deliver of improvements that had commenced during 2019/20.

We note the openness and transparency of the Council. We agree with its view that the Council made limited progress in improving its governance or performance management throughout 2018 and 2019. There have continued to be significant issues with regard to management, members, performance management, and the Council's control environment, including procurement. We consider that these issues have significantly impacted on the Council's ability to provide appropriate services to the people of South Ribble.

We note that from September 2019 greater progress has been made by the Council, for example, through the issue of a refreshed Corporate Plan in September 2019 and 2020. The Council needs to ensure that the actions that it has taken are embedded across services.

We discuss this in detail on the next pages of our report.

Based on the work we performed to address the significant risks, we are not satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The text of our report, which confirms this, is attached as a separate agenda item.

## Recommendations for improvement

We discussed findings arising from our work with management and have identified a number specific recommendations for improvement. We have also issued statutory recommendations. These are detail in Appendix C.

## 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

#### Financial sustainability

##### 2018/19

#### Revenue Service Budget

In 2018/19, the council set a balanced annual budget of £14.128m which included efficiency savings of £0.628m and no budgeted contributions to or from general reserves. The revised budget for 2018/19 forecast a net surplus of £0.219m to be transferred to the capital reserve to support the 4 year Capital Strategy and Programme. At the end of the year, the council had underspent by a further £0.093m and this small surplus has been added to general reserves.

The final out turn position for the Council is a £0.093m underspend against the revised net revenue budget of £14.135m. This is a strong financial performance.

#### Short term investments

The Council continues to maintain significant levels of short term investments. See table from Council's 2018/19 report. This, along with high levels of reserves, places the council in a robust financial position.

Table 3: Short-term investment interest

Comparison of interest earned 2017/18 and 2018/19			
	Average Balance	Average Rate	Interest Earned
2017/18	£36,164,564	0.495%	£179,120
2018/19	£40,054,734	0.755%	£302,594

#### Capital Budget Outturn

The final capital programme budget for 2018/19 was £9.882m which was subsequently revised to £2.898m in February 2019 to take account of slippage in the programme. In revising the 2018/19 budget, the Council took the decision to carry forward £6.654m into 2019/20. The carry forward has been reflected in the 2019/20 budget. The final out turn position on the capital budget of £0.476m underspend against an annual budget of £2.898m. We consider that this masks a considerable underspend against the original capital budget (which was £9.882m). We consider this underspend indicates poor capital project management.

#### Useable Reserves

The Council had General Fund Reserves of £4.68m and Earmarked Reserves of £14.8m as at 31 March 2019. We consider that this places the Council in a robust financial position.

## 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

#### 2019/20 budget and Outturn

Cabinet recommend for approval the 2019/20 Budget and Medium Term Financial Plan 2019/20 to 2022/23 to Full Council on the 27th February 2019.

The overall revenue outturn for 2019/20 is a net budget surplus of £1,400,000. Of this, £270,000 is surplus ring-fenced income and £166,000 relates to budgets that will be utilised in 2020/21. The net surplus is £964,000. The forecast at quarter 3 was an overall surplus of £930,000.

#### Short term investments

The Council continues to maintain significant levels of short term investments. See table from Council's 2019/20 outturn report. This, along with high levels of reserves, places the Council in a robust financial position.

Year	Average Balance	Average Rate	Interest Earned
2019/20	£43,018,874	0.901%	£387,391
2018/19	£40,054,734	0.755%	£302,594

#### Capital Budget Outturn

The final capital programme budget for 2018/19 was £12.9m which was subsequently revised to £4.129m to take account of slippage in the programme. Actual expenditure against the budget was £3.009m. An underspend of £1.12m against the revised budget or £9.3m against the original budget. Capital programme management continues to be poor and the Council is failing to deliver the project set out in its plans.

#### Useable Reserves

The Council had General Fund Reserves of £5.08m and Earmarked Reserves of £17.5m as at 31 March 2020. We consider that this placed the Council in a robust financial position.

## 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

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#### 2020/21 budget and financial position

Cabinet recommend for approval the 2020/21 Budget and Medium Term Financial Plan 2020/21 to 2023/24 to Full Council on the 23th February 2020. A net revenue budget of £14.6m was set by the Council.

#### Budget monitoring 2020/21 Quarter 2 report

The overall forecast for 2020/21 for the revenue budget is a net surplus of £55,000.

#### Impact of Covid-19

Covid-19 has impacted on the Council's budget as follows:

- Business Rates - collectable business rates for South Ribble was budgeted at £36.7m. The Government has increased the discount on business rates liability for certain businesses to 100%. This has reduced the Council's gross collectable business rates to an estimated £25.1m. The Council has received S31 grants to cover this reduction. After adjusting for this reduction in collectable business rates the Council estimates that the gross shortfall of business rates income could be £0.973m. South Ribble's share of this deficit would be approximately £389,000.
- Council tax – based in current collection rates the gross shortfall in income is forecast as £671,000. The Council's share of this would be £81,000
- Expenditure – the Council estimates that it will incur an additional cost of £218,000. In addition, it has agreed £240,000 of support was agreed to Serco Leisure Operating Ltd in relation to leisure provision.

#### Capital Budget Outturn

A capital budget of £10.09m was set by the Council. The programme was later adjusted to £8.9m. Covid-19 has had an impact on the timescales for delivering capital schemes but officers consider that the programme is on track in 2020/21. Of its £8.9m programme the Council considers it will deliver £8.5m. This is a significant improvement on prior years. The programme will be financed from the Council's reserves.

#### Useable Reserves

The total balance on reserves at the beginning of the financial year was £20.814m. Approximately £4.7m will be used in 2020/21 reducing reserves to £15.2m. This remains a strong position.

#### Medium term financial strategy

The revenue budget forecasts in the MTFs shows a balanced budget in 2020/21 and a deficit of £352,000 in 2021/22 which is forecast to increase to £548,000 in 2023/24. At present the Council is planning to fund these from general reserves although it is considering what additional income or budget savings can be identified. Clearly, this is not sustainable in the longer-term.

#### Summary

We are satisfied that the Council has appropriate management arrangements in place for the management of its finances.

## 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

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#### Governance

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.

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.

In 2017/18 there remained a very mixed picture. Some of the positives we identified were :

- The improvement reference group met throughout the year and included members from all parties; senior officers; and LGA representation.
- A new corporate plan was prepared and issued and had broad all-party support
- The Member / Officer Protocol has been approved
- Transformation plans are now in place
- Performance and satisfaction with the Council remains high
- Financially the Council are in a relatively healthy position

However, as highlighted during the LGA revisit, we concluded that a number of areas still required attention and the overall pace of change remained 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.

The organisational uncertainty has not been helped by:

- Uncertainty over the development of further shared services
- Changes in the personnel fulfilling the role of the s151 officer.

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. 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'.

Given the above we concluded that were unable to lift our "except for" value for money conclusion. For the year ended 31 March 2018 we qualified our VFM Conclusion and issued a s24 recommendation relating to the Council's response to major governance failures, which resulted in significant damage to the Council's reputation. As part of our audit we set out that we would review the progress made by the Council in responding to our recommendation and the governance challenges by

- consideration of further external reviews
  - review of the impact made by the Improvement Reference Group and
  - discussions with key officers.
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## 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

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#### Governance

We made the following recommendation 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.

#### Findings of 2018/19 and 2019/20 audit

The Council has publicly acknowledged the governance failings that were in place during 2018/19 and which continued, at least in part, into 2019//20. The Annual Governance Statement considered in draft form by the Governance Committee in June 2020 sought to highlight all of the issues and to put in place a very clear and robust action plan to implement and embed a strengthened governance framework. This action plan was deliberately front-loaded to accelerate the deliver of improvements that had commenced during 2019/20.

We note the openness and transparency of the Council. We agree with its view that the Council made limited progress in improving its governance or performance management throughout 2018 and 2019. There have continued to be significant issues with regard to management, members, performance management, and the Council's control environment, including procurement. We consider that these issues have significantly impacted on the Council's ability to provide appropriate services to the people of South Ribble.

We note that from September 2019 greater progress has been made by the Council, for example, through the issue of a refreshed Corporate Plan in September 2019 and 2020. The Council needs to ensure that the actions that it has taken are embedded across services.

We discuss this in detail on the next pages of our report.

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## 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

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#### Management – service performance

The Council's performance report for 2018/19 reported that the Council was on track to deliver the majority of its strategic objectives. We note that the Council has concerns over the accuracy of this report. We discuss this on the next page.

The Quarter one performance report for 2019/20 indicates that that Council was off track on complaints received, planning applications dealt with in accordance with statutory timelines, and calls answered and calls abandoned at its service. The Quarter three and four performance reports indicate that the Council was delivering against its performance objectives. It reports an improvement in calls answered and not abandoned. It does not report on its management of complaints or planning applications in these two reports.

We note that there have been service performance concerns with regard to Planning and Property, and Neighbourhood and Development during 2018/19 and 2019/20. In addition, Internal Audit have raised concerns with regard to Food Safety Inspections, Car Park enforcement procedures and Tree maintenance. This level of underperformance is a significant concern.

The Council has taken the following actions:

- With regard to Planning and Property an external review was carried out on the complaints relating to delays in planning applications. The review concluded that the decisions taken were correct but could have been handled faster
- With regard to food safety the Council has developed a comprehensive action plan. It has developed a draft Food service plan, and has introduced regular performance monitoring of the team,. We note that the programme of inspections was halted due to the pandemic. At this point (March 2020) there remained a backlog of inspections. Once the restrictions are lifted the Council will need to ensure this backlog is resolved.
- With regard to car parking a risk based maintenance and inspection policy has been drafted, an Updated Off Street Parking Order has been prepared for Council approval, an extension for a period of 2 years has been agreed with the Council's current enforcement provider but the agreement has yet to be signed and contract monitoring meetings have not recommenced. A review of fees and charges has been carried out and report and recommendations was presented to Full Council on 25th November 2020
- With regard to Tree maintenance a revised policy was approved on 16th March 2020, and a suitable tree management system has been identified but not yet purchased. Covid has had a major impact on the ability to carry out work, and the backlog has increased from 217 days in January 2020 to the present figure of 245 days. The Council are looking at the possible use of sub-contractor to reduce this backlog.

While we consider that the Council is taking action to strengthen its performance management there appear to have been significant deficiencies in the performance of services in both 2018/19 and 2019/20. The Council has been transparent in acknowledging these issues in its Annual Governance Statement.

The Council will need to continue its focus on these areas to ensure that it is providing an appropriate level of services.

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## 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

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#### Performance monitoring

We note the following:

- the last full annual performance report produced was the 2018/19 Comprehensive Corporate performance report produced. This shows that the Council was on plan to deliver its corporate objectives. However, we note the Council's view that it does not consider this report to be reliable.
- the Council did not produce a Comprehensive Corporate performance report for 2019/20
- the Quarter 1 performance report, reported 11 Sept 2019, includes data on complaints, planning application performance, calls abandoned, homelessness, use of B&B. In comparison, there is less data on actual service performance reported in the Q3 (reported February 2020) and Q4 (Reported June 2020) 2019/20 performance reports. We note that this reporting is based on the new performance management framework which will be reviewed in 2020/21.

We also note that Internal Audit raised concerns over the performance information provided to the Council during 2018/19 concluding that from a sample of 21 indicators 10 out of 21 reviewed are inaccurately reported due to issues with data collection and calculation processes, and 5 out of 21 reviewed could not be confirmed as accurately reported due to the source data not being retained. Poor quality data limits the ability of members and officers to make informed decisions. This is a significant concern.

The Council is aware of these issues and has put in place the following response:

- a Corporate Plan was approved in September 2019. Quarterly performance reports for Q1, Q3 2019/20 and Q4 2019/20 and Q1 20/21 have been produced by the Council
- the Q4 report states a plan to refresh the Corporate Plan in light of Covid 19
- a refreshed Corporate Strategy was approved by Council on the 30th September 2020
- in October 2020 the Performance Management Framework was fully reviewed and updated. The framework sets out that quarterly performance reports are to focus on monitoring delivery of the priorities set out in the Corporate Strategy, with additional service level monitoring of performance to be via Business Plan Monitoring Statements
- the findings and recommendations of the internal audit report have been considered in the production of the this framework (which includes a data quality policy)
- Regular reporting of performance against strategic objectives and some performance metrics to cabinet recommenced in September 2020. Training is being undertaken as part of the new corporate strategy roll-out.

We consider that the Council is taking action to strengthen its performance management. However, there appear to have been significant deficiencies in the performance of services (see earlier) and the performance framework has not operated in full in either 2018/19 or 2019/20. In 2018/19 there are questions over the accuracy of the performance data provided. In 2019/20 there was no annual performance report for 2019/20.

We note the recent improvements in the performance management systems with the revised Corporate Strategy and Performance Management Framework. Quarterly monitoring has also recommenced. These systems will need to be embedded. The Council should also consider whether performance monitoring adequately covers service performance.

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## 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

#### Maintenance of an appropriate control environment

The Council has identified a number of deficiencies in its control environment. It has detailed these in a full and transparent manner in its Annual Governance Statement. These deficiencies were identified by the Internal Audit team and the current leadership team. We note that management and members are aware of these issues and are focussed on ensuring that there is an improvement in the control environment.

With regard to 2018 and 2019 it is clear that the Council has not maintained an appropriate control environment. In particular, we note the following conclusions by the Council's internal auditors:

- Creditors: 'Testing has identified that whilst some controls are in place within the Creditors system (Civica) there are a number of controls which allow for the potential of fraud, error and or allow staff potentially to act beyond their delegated authority, including the issues outlined below.'
- Health and Well Being Leisure Campus: 'The findings identify a number of significant fundamental failings in respect of governance arrangements in regard to this key project, including failure to comply with Constitutional decision making processes, including failing to inform Members of increasing costs at key times in the budget process; failure to notify Cabinet, as outlined by Cabinet and the Constitution in respect of expenditure in the amount of key decision (£100,000). This demonstrates that the checks and balances put in place to support officers and enable Members to make informed decisions have been totally disregarded by the people at a Senior level including the statutory officers of the Council and the Chief Executive.'
- Procurement of gas and electricity contract – 'it is evident that the Council's Contract Procurement Rules had not been adhered to in most, if not all, aspects of the re-letting of the gas and electricity contract(s) and that assurance cannot be provided that best value had been obtained. It is also evident that management controls, have fundamentally failed.
- General Data Protection Regulations : 'A GDPR Implementation Group, led by The DPO was set up to address the requirements of the ICO's 12 step plan and to assist with GDPR implementation across the Council. Audit found that whilst several of these steps have been actioned and implemented, there are still a number of requirements outstanding, in particular, an approved Retention Policy, adequate training and awareness, and a fully completed Record of Processing Activity (ROPA).

These are significant failings.

We have followed up these issues.

- Creditors – we note that the control weaknesses are significant and that in part there appears to have been a deliberate override of control by management with regard to the receipting of goods. This is of significant concern. A decision has been taken by management to undertake further testing in this area. This will be completed this financial year and improved management actions will be agreed with the service.
- Health and Well Being Campus - A revision of the cost plan and value engineering exercise led to a report in September 2019 report that discontinued the project. We note that design fees of £569,912.58. The Council estimates that £275,000 of these fees were effectively abortive.
- Procurement - The procurement issues have been raised with the Procurement Team. They have confirmed that, in their view, there is no a systemic failure of the Council's contract procedure rules. The Council has let 5 significant contracts since this date with a value of £2.45m. It has confirmed that appropriate procedures have been followed in all instances. We reviewed a summary of the award decision for 2 contracts to the value of £2.1m. We are satisfied that the award was appropriate.

## 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

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#### Maintenance of an appropriate control environment

- Training has been provided to Directors / Assistant Directors and senior managers on ethical decision making, to include procurement processes and council decision making. The training will be delivered to managers and team leaders in early 2021.
- The Council has amended its constitution (as reported to the Council on Wednesday 25 November) to promote member led decision making. It is considered that this will provide greater transparency due to the wider involvement of members in procurement and contract awards.

GDPR - With regard to GDPR additional staff training has been undertaken during Summer / Autumn 2020. However, there are a number of significant GDPR actions that have yet to be taken. These include:

- Information Asset Owners (IAOs) revealed that there are no set procedures in place for ensuring records are deleted once the retention period has expired. A project has commenced to resolve the matter in Environmental Health, Planning, Housing, Licensing & Legal, Revs and Bens
- The Council has not yet reviewed all of its contracts to ensure they are GDPR compliant.

The Council should continue to take action to strengthen the compliance with its policies and procedures.

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## 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

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#### Capability of officers

We note that, including the ex-Chief Executive, there have been concerns over the performance of several senior officers during 2018/19 and 2019/20. We consider that this casts doubt over the ability of the senior leadership team during 2018/19 and 2019/20.

We note that there have been a number of changes at a senior level. For example, since June 2018 there have been six s151 officers. The Council continues to operate with an interim S151 officer and without a permanent Chief Internal Auditor. We note that the Director of Finance post is covered by an internal postholder with an understanding of the issues facing the Council. The Council is currently out to advert for a permanent appointment. Similarly the Chief Internal Auditor post is also out to advert.

Proposals were brought forward for restructuring by the ex Chief Executive, for example, the Borough Solicitor but have not been followed through. Since then, in September 2019 (and implemented from December 2019), the proposals for shared senior posts have been brought forward and implemented. The Council considers that this has significantly bolstered the capacity and experience of the senior management team. We do not dispute this but consider that these changes at a senior level will quite naturally take time to embed and impact on the Council.

We can see the progress made by the Council. However, we consider that the changes at a senior level have significantly impacted on the Council's ability to provide services to the area. It is important that there is stability amongst the senior leadership team going forward and that the Council appoints permanently to the interim posts.

#### Internal audit

Internal audit have undertaken a number of significant investigations. These have included reviews of procurement, recruitment, GDPR, performance data, and service performance. The reports are highly critical of the Council's arrangements in a number of areas and have been helpful in identifying significant weaknesses in Council control systems.

We note that a number of these reviews sit alongside the independent investigation. We share the view of the independent investigator that a number of these reports were investigatory in nature and potentially breached the Council's Standing Orders and JNC Model Disciplinary Procedures. While we accept that the Council undertook these reviews in response to concerns over the management and governance of certain services it needs to ensure that such reviews are appropriate.

It is of significant concern that the Independent Investigator did not agree with a number of the findings of the Internal Report. This indicates either a lack of quality control or rigour in the Internal Audit process, or error in the Independent Investigators work. Going forward, the Council needs to ensure that it is satisfied with the quality control procedures relating to internal audit and, if similar circumstances arise, the findings of independent investigators.

The Independent Investigator states 'The commissioning of investigations into further disciplinary allegations against the Chief Executive, via the audit route rather than in accordance with the JNC Model Procedure at the outset, was a response to concerns raised by the Leader rather than by a Committee of Council'. We note that the Council disagrees with this statement and that the Chief Executive considers that he commissioned these reviews. Given the lack of clarity in this area we are not able to form a conclusive judgement. We therefore note that the Council should ensure that Internal Audit remains an independent and active function within the Council.

We note that as at November 2020 the Council have only recently agreed an Internal Audit Plan for 2020/21 and that a permanent Chief Internal Auditor is not in place. The Council has confirmed that internal audits have continued to be undertaken during 2019/20 and 2020/21, and that the permanent post is currently being recruited. At present, an interim Senior Auditor reviews the IA reports of the audit team and their own work is peer reviewed by one of the team before being shared with the Monitoring Officer for checking and review. We note that the Internal Audit Plan for 2020/21 has only recently been agreed. Combined with a lack of a permanent Chief Internal Auditor we consider that this increases the risk of fraud or non compliance with procedures at the Council.

## 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

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#### Officer and member relationships

We have considered the relationships between officers and members during 2018-29 and 2019-20.

With regard to the 2018-19 the ex Chief Executive appears to have had a positive relationship with the then administration. The relationship with the then opposition party seems to have been poor. We note that the Independent Investigator commented that the relationship between the ex-Chief Executive and leading members of the Labour Group became 'increasingly strained and difficult throughout her tenure'. It is of significant concern that the Council allowed relationships between the then opposition group and the ex-Chief Executive to deteriorate in this manner.

With regard to 2019-20, we have:

- discussed officer and member relationships with the current Chief Executive who considers that relationships between members and officers are good and improving. Relationships between the political groups are appropriate
- reviewed the Council's records to identify any recent complaints regarding officer or member behaviour, and any issues referred to the Standards Committee. The standards committee Report states: 'For the period 1st of November 2018 to 31st of December 2019 there were 7 formal standards complaints about members. By way of comparison for the year 1st of November 2017 to 31st of October 2018 there had been 23 such complaints. In the 12 months before that there had also been 23 such complaints. Of the 7 new cases: a decision to take no action was made in 5 cases and an apology/explanatory statement was sought (and obtained) in 2 cases.' We do not consider that the level of cases is high
- attended the Council's Governance Committee in October and November 2020. We consider that the challenge of officers at these meetings to have exceeded what we would consider to be acceptable. While we accept members frustration at some of the issues reported to the Committee, it is important that members ensure that their challenge of officers remains appropriate.

We note that a Member and Officer Protocol was adopted in March 2018 – all members and officers signed up to it for the year 2018 – 2019. For the year 2019 -2020 (following the election in May 2019) members were again asked to sign up to this protocol. We note that not all members signed up to this protocol. We consider that it is disappointing that some members did not sign up to the protocol.

The Annual Governance statement also draws out the following issues:

- Internal Audit Identified that a number of policies relating to the ethical governance of the Council require reviewing and updating. The monitoring officer has confirmed that these have been updated
- ethical training for Members and Officers is required (although we note that training has now been delivered in this area.

We also note that the Chief Executive is now actively working with the opposition group.

We consider that officer and member relationships are not unreasonable, and welcome the approach taken by the Chief Executive to deal openly with both the current administration and the opposition. Both officers and members should continue to focus on building positive relationships.

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## 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

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#### IRG action plan and Annual Governance Statement

South Ribble Borough Council created an Improvement Reference Group (IRG) as a partnership between South Ribble and the Local Government Association to provide oversight, support and challenge to SRBC's improvement and transformation journey. The board was established following the Corporate Peer Challenge in 2017 and subsequent re-visit in March 2018.

The IRG was a cross party working group made up of the incumbent administration at that time (Conservative Group) and the opposition (Labour Group); it also included Conservative and Labour Peer Members from other Local Authorities and officers from the Local Government Association. SRBC Officers in attendance included the Chief Executive and the Section 151 officer; the Chair of the Group was the Leader of the Council.

An IRG Action Plan was devised to monitor completion of the recommendations, and progress on this was reported to Cabinet on 23/1/19 and Council on 6/2/19 in the Chief Executive's Report "Corporate Peer Challenge Action Plan and Response to External Auditors Statutory Recommendation Update".

We note that Internal Audit were asked to look at the reporting of the "Corporate Peer Challenge Action Plan and Response to External Auditors Statutory Recommendation Update" reported to Cabinet on the 23rd January 2019 and Council on 6th February 2019. Concerns had been raised in regard to the reporting of the outcome of the meeting of the Independent Reference Group (IRG) which took place on the 7th January 2019; in that, the accurate overall position that was reported to Cabinet and Council (dates as above) was not the position agreed at the IRG meeting. The scope of this review was to determine whether the ex-Chief Executive intentionally misled Members by exaggerating the level of improvements implemented by South Ribble Borough Council when reporting to Members, in particular by rewording the minutes of the IRG meeting of 7/1/19 to read more favourably. Both internal audit and the Independent Investigator reviewed this matter. It is of significant concern that they reached different conclusions on this matter.

We requested that the Council confirm what action had been taken to confirm the accuracy of each report and which, in the Council's view, reflects an accurate representation of the events. We also requested an update on the actions in the IRG plan. We understand, that due to the issues surrounding the plan, and whether improvements had been made the monitoring of the plan has been discontinued. Rather the Council has focussed on the development of an open and transparent annual Governance Statement that sets out the issues facing the Council and the actions that need to be taken. We do not consider that this is unreasonable.

The Annual Governance Statement is comprehensive. In the main we are comfortable with the statements made in the report. The Council should continue to focus on delivering the actions within the plan.

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## 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

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#### Governance matters relating to ex-Chief Executive

Following the May 2019 elections there was a change in administration at the Council. Subsequently, the Investigating and Disciplinary Committee (IDC) issued terms of reference for an independent investigation on 22 July 2019 and supplemented on 21 November 2019 with regard to concerns raised with regard to the behaviour of the then Chief Executive. The Independent Investigator reported her findings to the Council on 22 April 2020. The IDC requested that a number of issues should be investigated with regard to the Chief Executive's behaviour.

The Independent Investigator presented a balanced view in their report. The report dismisses many of the claims against the Chief Executive but does conclude that disciplinary action was necessary in a number of areas. It is unusual to have such a large number of disciplinary issues. We also note that the previous administration had not raised any concerns with regard to these matters. We consider that these issues have impacted on the good governance of the Council. In particular, there are issues relating to working with members and officers, management of performance, appropriate behaviour, and procurement.

We comment on three specific issues below.

The Independent Investigator concludes 'On the basis of the evidence outlined above, the Leader of the Council did not have the legal power to suspend the Chief Executive. The Chief Executive's suspension was therefore technically invalid until such time as it was reviewed by the decision-making body to which the Council had delegated power to suspend.' We consider that this is a significant breach of governance. However, the Council have confirmed that prior to taking the action to suspend, the Leader took advice from both the LGA and external legal advisers. Whilst it was confirmed that the Leader did not have this power in the constitution it was recognised that there were no "urgent" powers available and the Council should balance their obligations and consider the position of the staff effected by the allegations. The Council has further commented that the IDC was convened shortly thereafter and chose to continue the suspension, supporting the decision of the Leader and mitigating any risk of acting ultra vires. The Council has now amended the constitution to provide the leader of the Council with this authority.

The independent Investigator highlights the accusation that dismissal of the Chief Executive may have been "leaked" to the press. We have discussed this with the Chief Executive who has stated that 'the leak' was in fact a press release. It was felt at the time that confirmation the CE was on special leave was appropriate in order to prevent incorrect reporting which would likely have followed due to the CE's unexplained absence. The circumstances were not released.

The decision with regard to the dismissal of the Chief Executive was taken by the Investigating and Disciplinary Committee held on Tuesday, 9 June 2020. We note that the recommendation made by the Independent Investigator was a series of oral, written and final written warnings. In particular we note that the Independent Investigator states 'If those findings had been made in separate proceedings, then, on a simple "totting up" basis, the threshold for moving through the range of disciplinary sanctions would have included dismissal with notice as a potential outcome. The fact that the issues were not addressed contemporaneously has deprived the Chief Executive of opportunities to improve/adjust her behaviour.' This matter is the subject of an employment tribunal so it is not appropriate to comment further than we have on this matter.

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## 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

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#### Summary

The Council has publicly acknowledged the governance failings that were in place during 2018/19 and which continued, at least in part, into 2019//20. The Annual Governance Statement considered in draft form by the Governance Committee in June 2020 sought to highlight all of the issues and to put in place a very clear and robust action plan to implement and embed a strengthened governance framework. This action plan was deliberately front-loaded to accelerate the deliver of improvements that had commenced during 2019/20.

We note the openness and transparency of the Council. We agree with its view that the Council made limited progress in improving its governance or performance management throughout 2018 and 2019. There have continued to be significant issues with regard to management, members, performance management, and the Council's control environment, including procurement. We consider that these issues have significantly impacted on the Council's ability to provide appropriate services to the people of South Ribble.

We note that from September 2019 greater progress has been made by the Council, for example, through the issue of a refreshed Corporate Plan in September 2019 and 2020. The Council needs to ensure that the actions that it has taken are embedded across services.

We have mentioned a number of the actions taken by the Council earlier in this report. In addition, we note the following actions taken:

- The Council introduced a Transformation Strategy in 2018/2019 and developed a transformation programme. In 2019/2020 the Council elected not to introduce a new updated Transformation strategy. Review of Council papers indicates that transformation is considered part and parcel of everyday working. We note that a key driver for transformation is shared services and that progress has been made in this area. **Governance**
- An Organisational Development Strategy has been developed and has been approved by leadership team and its implementation is underway. This strategy aims to engage staff in key areas of development to support a positive culture of trust and accountability.
- Progress has been made in delivering shared services to ensure that the council has a sustainable delivery model that is fit for the future. Key milestones include:
  - Finalising the proposals for the phase one service reviews, designed to develop a single operating model for the new shared services.
  - Preparing for the implementation of the service reviews
  - Preparing the business case for phase two of shared services.

#### Next steps

It is positive that the Council has acted in an open and transparent manner with regard to the issues that are facing it. We also note that it is taking action to resolve the performance, control and governance issues it has identified.

We consider that the Council will need to continue to focus on these areas and embed high service performance standards, compliance with its financial procedures and controls, and strong member officer relationships. We have made statutory recommendations to support this change.

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## **Additional powers and duties under section 24 of the Local Audit and Accountability Act 2014 ('the Act')**

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### **Statutory powers and duties**

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.

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 limited progress in improving its governance or performance management throughout this period. There have continued to be significant issues with regard to management, members, performance management, and the Council's control environment, including procurement. We consider that these issues have significantly impacted on the Council's ability to provide appropriate services to the people of South Ribble.

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

The Council needs to make demonstrable progress in relation:

- Improving service performance
  - Strengthening the financial control environment of the Council
  - Securing appropriate working relationships between officers and members
  - Appointing a suitable experienced and senior S151 officer.
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# 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. The following non-audit services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
<b>Audit related</b>			
Certification of Housing capital receipts grant	9,750	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £11,000 in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
<b>Non-audit related</b>			
None noted			

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit Committee. None of the services provided are subject to contingent fees.

# Audit Adjustments

## Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2018/19 audit which have not been made within the final set of financial statements. The Audit & Value for Money Scrutiny Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
1 Estimated impact of the increase on the pension liabilities for the implications of McCloud ruling that are expected to apply to the LGPS	(380)	(380)		• The adjustment is not material to the financial statements
2 Estimated understatement of income (cut off sample)	35	35		• The adjustment is not material to the financial statements
3 Understatement of housing benefit debtor	43	43		• The adjustment is not material to the financial statements
4 Estimated overstatement of creditors	242	242		• The adjustment is not material to the financial statements
5 Estimated overprovision for business rate appeals	497	497		• The adjustment is not material to the financial statements
<b>Overall impact</b>	<b>437</b>	<b>437</b>	<b>437</b>	

# Fees

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

## Audit Fees

	Proposed fee	Final fee	2017/18 Fee
Council Audit	£33,821	£63,321	£43,923
<b>Total audit fees (excluding VAT)</b>	<b>£33,821</b>	<b>£68,321</b>	<b>£43,923</b>

The fees reconcile to the financial statements as follows:

- Fees per financial statements; £33,821
- We are proposing additional fees of £4,500 in respect of:
  - Assessing the impact of the McCloud ruling. The government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling.
  - IAS 19 and PPE. The Financial Reporting Council (FRC) has highlighted that the depth of work by audit firms in respect of IAS 19 and PPE needs to be strengthened across local government audits. Accordingly we have increased the level of scope and coverage in respect of these areas.
- We are proposing additional fees of £15,000 with regard to review of additional value for money audit work due to the governance failures at the Council
- We are proposing fees of £10,000 with regard to additional audit work as a result of the financial control failures at the Council
- We are proposing an additional fee of £5,000 due to Covid – 19 related delays in the delivery of the audit.
- Total fees per the above: £68,321

## Non Audit Fees

Fees for other services	Fees £'000
<b>Audit related services:</b>	£11,000
• Certification of Housing benefit subsidy grant	
	<b>£11,000</b>



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