

The Audit Findings for South Ribble Borough Council

Year ended 31 March 2022

March 2023



Contents



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Section	Page
1. Headlines	3
2. Financial statements	5
3. Value for money arrangements	21
4. Independence and ethics	23
Appendices	
A. Action plan	
B. Follow up of prior year recommendations	
C. Audit adjustments	
D. Fees	
E. Audit Opinion	
F. Audit letter in respect of delayed VFM work	

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

Georgia Jones

Name : Georgia Jones

For Grant Thornton UK LLP

Date : March 2023

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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1. 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 group and Council's financial statements for the year ended 31 March 2022 for those charged with governance.

Financial Statements

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 group and Council's financial statements give a true and fair view of the financial position of the group and Council and [the group and Council's income and expenditure for the year; and
- 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.

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 and is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was completed on site/remotely during August to November. Our findings are summarised on pages 7 to 21. We have identified 4 adjustments to the financial statements that have resulted in a £0.503m adjustment to the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

Our work is now complete and there are no matters of which we are aware that would require modification of our audit opinion (Appendix E), subject to the following outstanding matters;

- Review of the final version of the financial statements
- Managements consideration of events after the reporting period
- Final file reviews by the engagement manager and engagement lead
- Receipt of management representation letter;

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.

Our anticipated audit report opinion will be unmodified.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix G to this report. We expect to issue our Auditor's Annual Report by February 2023. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified the following risks of significant weakness:

- Deficiencies in the control environment

Our work on this is underway and an update is set out in the value for money arrangements section of this report.

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.

We have not exercised any of our additional statutory powers or duties.

We expect to certify the completion of the audit upon the completion of our work on the Council's VFM arrangements, which will be reported in our Annual Auditor's report in February 2023.

Significant Matters

We did not encounter any significant difficulties or identify any significant matters arising during our audit.

2. Financial Statements

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 have been discussed with management.

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;
- An evaluation of the component of the group based on a measure of materiality considering each as a percentage of the Council's gross revenue expenditure to assess the significance of the component and to determine the planned audit response.
- 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 in June 2022, to reflect the requirement of the Council to prepare group accounts.

Conclusion

We have substantially completed our audit of your financial statements and subject to the items listed on page 3 being resolved, we anticipate issuing an unqualified audit opinion following the Governance Committee meeting on 7 March 2023, as detailed in Appendix E.

Acknowledgements

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

2. Financial Statements

Group Amount (£) Council Amount (£) Qualitative factors considered

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	923,000	922,000	We have used planning materiality which equates to around 1.9% of your gross operating expenditure for 2021/22. This is considered to be the level above which users of the financial statements would wish to be aware in the context of overall expenditure.
Performance materiality	692,000	692,000	Assessed as 75% of financial statements materiality and based on our knowledge of the Authority and consideration of previous audit findings and adjustments.
Trivial matters	46,000	46,000	Assessed as 5% of financial statements materiality
Materiality for senior officer remuneration	N/A	20,000	The senior officer remuneration disclosures has been identified as an area operating specific materiality due to the sensitive nature of disclosures in this area. This has been assessed as £20k.



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 benchmark levels remain the same as reported in our audit plan in June 2022. However on receipt of the draft financial statements the materiality figure was recalculated using those benchmarks, This was to appropriately reflect the increase in Council expenditure in 2021/22. Materiality at the planning stage was £780k. We have also now assessed group materiality given the Council is required to prepare group accounts.

We detail in the table aside our determination of materiality for South Ribble Borough Council and group.



2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan

Commentary

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. .

We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which is one of the most significant assessed risks of material misstatement.

We note that there are previous examples, as highlighted by Internal Audit, where management may have overridden controls relating to procurement and the appointment of officers.

We have also previously identified weak controls around authorisation of journal postings.

We have:

- evaluated the design effectiveness of management controls over journals
- analysed the journals listing and determined the criteria for selecting high risk unusual journals
- identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration
- gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness
- evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions

We have not identified any changes to accounting policies or the estimation process.

Our work in this area is complete and we have not identified any issues in respect of management override of controls.



2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Improper revenue recognition

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.

Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:

- there is little incentive to manipulate revenue recognition
- opportunities to manipulate revenue recognition are very limited
- the culture and ethical frameworks of local authorities, including South Ribble Borough Council mean that all forms of fraud are seen as unacceptable

Commentary

Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:

- there is little incentive to manipulate revenue recognition
- opportunities to manipulate revenue recognition are very limited
- the culture and ethical frameworks of local authorities, including Mersey Fire and Rescue, mean that all forms of fraud are seen as unacceptable.

Therefore and as reported in our Audit Plan, we do not consider this to be a significant risk. Whilst not a significant risk, we have performed audit procedures and testing of material revenue items.

Our testing in this area is complete. Performance of procedures to sample test income have not identified any matters to report and have not identified any matters that would lead to a change in our risk assessment.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

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 of £31.649m (£37.289m in 2020-21) is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.

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

The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation.

The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable.

The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability.

We have:

- updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls;
- evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;
- assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability;
- tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;
- undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and
- obtained assurances from the auditor of Lancashire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

This work is complete following receipt of the final assurance letter from the pension fund auditor.

We identified a material misstatement in respect of the valuation of the Council's pension fund assets and liabilities relating to recognition of employer contributions that were prepaid in the prior period. Following identification of the misstatements, the Council engaged with their actuarial experts to ensure that the appropriate amendments we made to the valuations. We have further assessed the adjustments recognised by the Council and conclude that these valuations are fairly stated.

We also identified a material misstatement in respect of the Council's pension fund disclosures regarding the movement of pension fund assets and liabilities relating to employees previously employed by South Ribble Community Leisure Ltd who were employed by the Council for five months within the period before being transferred to the newly formed South Ribble Leisure Ltd subsidiary. The Council has adjusted these disclosures in line with management's actuarial expert valuations and, following our procedures performed over these valuations, consider the disclosures to be fairly stated. Although material misstatements were identified in the disclosures, the overall net impact of the misstatement on the Statement of Financial Position is immaterial.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Valuation of Land and Buildings and Investment Properties

The Council revalues its land and buildings on a rolling five-yearly basis. This valuation of £27.588m (£27.358m in 2020-21) represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.

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

Investment Properties: All investment properties should be valued and reported at fair value under relevant accounting principles. Again, this valuation of £11.159m (£10.144m in 2020-21) represents a significant estimate by management in the financial statements due to the size of the numbers involved compared to Council's materiality and the sensitivity of this estimate to changes in key assumptions.

We therefore identified valuation of land and buildings, including investment properties, as a significant risk, which was one of the most significant assessed risks of material misstatement.

We have:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work
- evaluated the competence, capabilities and objectivity of the valuation expert
- discussed with the valuer the basis on which the valuation was carried out
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding
- tested revaluations made during the year to see if they had been input correctly into the Council's asset register
- evaluating the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.
- Reviewed management's assessment of the risk of impairment of Assets Under Construction

Our work is complete and other than the issues below we have not identified any further issues to report in respect land and buildings and investment properties which have been revalued in 2021-22.

We have identified several assets (£2.35m) on the assets register which are held at historical cost which is not appropriate under the CIPFA Code. Upon review and through inquiries of management, we have established there are some items which are a component of other buildings on the asset register and therefore double-counted. Additionally, for one property, Hurst Grange, the revaluation had not been included in the asset register and draft accounts. The draft accounts have been adjusted to correct these misstatements, see Appendix C. We have reported a recommendation for improvement in Appendix A.

2. Financial Statements - Other risks

Risks identified - Other risks

Valuations of Infrastructure Assets

The CIPFA Code of Practice on Local Authority Accounting states that Infrastructure assets shall be measured at depreciated historical cost. Historical cost is deemed to be the carrying amount of an asset as at 1 April 2007 (i.e. brought forward from 31 March 2007) or at the date of acquisition, whichever date is the later, and adjusted for subsequent depreciation or impairment.

We identified a risk that the carrying value of infrastructure assets is not appropriate given the nature of how the assets are held on the balance sheet and monitored through the asset register.

Commentary

The inherent risks which we identified in relation to infrastructure assets were:

- an elevated risk of the overstatement of Gross Book Value and accumulated depreciation figures, due to lack of derecognition of replaced components
- a normal risk of understatement of accumulated depreciation and impairment as a result of failure to identify and account for impairment of infrastructure assets and an over or understatement of cumulative depreciation as a result of the use of inappropriate useful economic lives (UELs) in calculating depreciation charges.

We have been working with CIPFA and the English Government to find both long-term and short-term solutions which recognise the information deficits and permit full compliance with the CIPFA Code. It has been recognised that longer-term solutions, by way of a Code update, will take several years to put into place and so short-term solutions are being put in place in the interim. These short-term solutions include the issue of a Statutory Instrument (SI) by government. The English SI was laid before Parliament on 30 November 2022 and came into force on 25 December 2022. CIPFA issued an update to the Code for infrastructure assets in November 2022 and has issued further guidance in January 2023 in relation to useful economic lives (UELs).

We have completed the following work focusing on the Council's current year's infrastructure assets:

- Reviewed and challenged the arrangements that the Council has in place around impairment of infrastructure assets
- Evaluated management's processes and assumptions for the calculation of the estimate including review of in-year depreciation and associated UELs
- Considered whether there has been any replacement of assets that have not been fully depreciated and evaluated the subsequent derecognition of the replaced assets.

Based on our work, we are satisfied that the Council has:

- correctly applied the SI and the requirements in the CIPFA Code update
- appropriately removed the gross book value and accumulated depreciation from its disclosures adding a new disclosure setting out opening net book value and any in-year movements
- not identified any prior period adjustments requiring disclosure in the accounts.

From our review of useful lives applied to infrastructure assets, we identified that the basis for determining appropriate useful lives for different types of assets should be reviewed. The accounting policies include a range of 5-60 years for infrastructure assets however, there are additional sub-categories which should be assessed individually¹¹ e.g. footpaths and bridleways, drainage, parks. Additionally, there are £0.373m of items capitalised which are components of other assets on the register which depreciated in full in one year. We have reported a recommendation for improvement in Appendix A.

2. Financial Statements – Key findings arising from the group audit

Component	Component auditor	Findings	Group audit impact
South Ribble Borough Council	Grant Thornton	<p>The Group accounts were provided for audit on 18 November 2022</p> <p>We reviewed the Council's procedures and consolidation calculations for the consolidation of South Ribble Leisure Ltd with the Council's accounts. No issues were identified.</p> <ul style="list-style-type: none"> We have obtained sufficient assurances over any material balances and transactions outside the group boundary. We completed a review of the group consolidation process and there are no issues identified that need reporting to the Governance Committee. 	<ul style="list-style-type: none"> Our group audit work is complete. We have identified an error in the cash balances resulting in the total cash balance in the group accounts being understated by £0.647m and this has been adjusted in the accounts. See appendix C.
South Ribble Leisure Ltd	Not applicable	<p>Risks identified as per our audit plan addendum were:</p> <ul style="list-style-type: none"> Management override of controls Valuation of Pension Fund Liability <ul style="list-style-type: none"> We have completed a review of the group consolidation process and there are no issues identified that need reporting to the Audit Committee. We have substantively tested a sample of the income and expenditure transactions in the leisure company <p>Our work in this area is ongoing, pending completion of the income and expenditure testing</p>	<p>Our work in this area is complete. We have not identified any issues to report.</p>

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
<p>Land and Building valuations – £27.588m</p> <p>Investment Properties - £11.159m</p>	<p>Other land and buildings includes specialised assets such as leisure centres which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision.</p> <p>The remainder of other land and buildings are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged Sanderson Weatherall to complete the valuation of properties as at 31 March 2022 on a five yearly cyclical basis. 12% of total assets were revalued during 2020/22.</p> <p>Management have considered the year end value of non-valued properties and the potential valuation change in the assets revalued at 31 March 2022. This has been supported by a desktop review of assets by Sanderson Weatherall. Management identified material changes to the valuation of properties. Where applicable, the identified assets were subject to a full revaluation.</p>	<p>We have</p> <ul style="list-style-type: none"> • undertaken an assessment of management's experts • reviewed the completeness and accuracy of the underlying information used to determine the estimate • reviewed the impact of any changes to valuation method • checked the consistency of estimate against near neighbours • agreed the reasonableness of the increase/decrease in estimate • reviewed the adequacy of disclosure of estimate in the financial statements. <p>The valuation method remains consistent with the prior year.</p> <p>The Valuer has prepared their valuations in accordance with RICS Valuation – Global Standards.</p> <p>Our work in this area is complete we have not identified any issues in respect of valuation of land and buildings and investment properties</p> <p>We expected to obtain sufficient and appropriate audit assurance to conclude that:</p> <ul style="list-style-type: none"> • the basis of the valuation of land and buildings and investment properties is appropriate • the assumptions and processes used by management in determining the estimate of valuation of property are reasonable. • the valuation of land and buildings disclosed in the financial statements is reasonable. • management's approach to this significant estimate is appropriate • management's assessment of assets not revalued is reasonable 	Light Purple

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate

Summary of management's approach

Audit Comments

Assessment

Net pension liability – £31.649m

The Council's total net pension liability at 31 March 2022 is £31.649m comprising the Lancashire Pension Fund Local Government Scheme. The Council uses Mercer 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 2019. 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.

We have:

- Undertaken an assessment of management's expert
- Assessment of actuary's approach taken, detail work undertaken to confirm reasonableness of approach
- Use of PwC as auditors expert to assess actuary and assumptions made by actuary

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.8%	2.7-2.8%	●
Pension increase rate	3.5%	3.0-3.5%	●
Salary growth	4.9%	4.3-5.0%	●
Life expectancy – Males currently aged 45 / 65	23.7 / 22.3	22.2-24.8 / 20.7-23.3	●
Life expectancy – Females currently aged 45 / 65	26.8 / 25	25.7-27.5 / 23.8-25.5	●

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

Our work is complete and we have obtained assurances from the auditor of the Local Government Pension scheme in order to conclude our work in this area.

Light Purple

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Provisions for {NNDR appeals} - £2.351m	<p>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.</p> <p>Whilst earlier outstanding appeals have fallen, the Council has included an estimate for appeals in from 2017-18 to 2021-22 of approximately 4.0 per cent. The provision has increased £0.270m from 31 March 2021.</p>	<p>We have:</p> <ul style="list-style-type: none"> reviewed the appropriateness of the underlying information used to determine the estimate reviewed the impact of any changes to valuation method checked the consistency of estimate against industry practice agreed the reasonableness of the increase in estimate reviewed the adequacy of disclosure of estimate in the financial statements. <p>Our work in this area is complete and we have not identified any issues to report.</p>	Light Purple

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Grants Income Recognition and Presentation- £33.883m	<p>The Council receives a number of grants and contributions and must determine whether the Council is acting as principal/ agent, and if there are any conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income.</p> <p>The Council is acting as the principal and credited the following grants, to the Comprehensive Income and Expenditure Statement:</p> <ul style="list-style-type: none"> • Covid-19 funding • Benefits related grants • Business rates reliefs • Developer contributions <p>The Council is acting as an agent and does not recognise grant income in respect of £5.829m of Covid-19 funding to support local businesses.</p> <p>The Council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver.</p>	<p>Our audit work included consideration of:</p> <ul style="list-style-type: none"> • whether the Council is acting as the principal or agent which would determine whether the authority recognises the grant at all • Completeness and accuracy of the underlying information used to determine whether there are conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income • Impact for grants received, whether the grant is specific or non specific grant (or whether it is a capital grant) – which impacts on where the grant is presented in the CIES. • Adequacy of disclosure of judgement in the financial statements <p>Our work in this area is complete. We have completed our procedures on the grant funding where the Council is acting as an agent. We have not identified any issues to report.</p>	Light Purple

Assessment

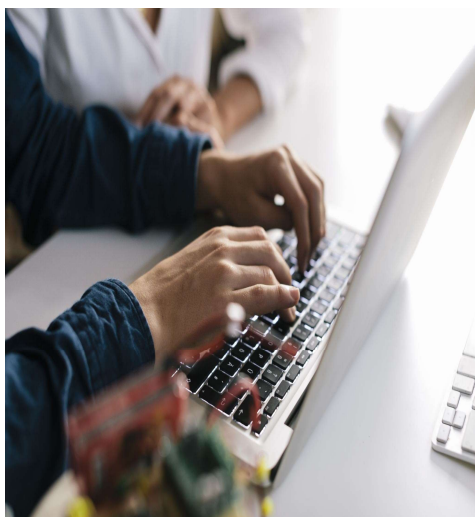
- **Dark Purple** We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- **Blue** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we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

2. Financial Statements - 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
Matters in relation to fraud	We have previously discussed the risk of fraud with the Governance Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed
Matters in relation to laws and regulations	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.
Written representations	A letter of representation has been requested from the Council, this is included in the agenda for the meeting

2. Financial Statements - other communication requirements



Issue	Commentary
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Council's bankers. This permission was granted and the requests were sent and were returned with positive confirmation.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	We have not encountered any significant difficulties during the audit.

2. Financial Statements - other communication requirements



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).

Issue	Commentary
Going concern	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p>Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul style="list-style-type: none"> the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul style="list-style-type: none"> the nature of the Council and the environment in which it operates the Council's financial reporting framework the Council's system of internal control for identifying events or conditions relevant to going concern management's going concern assessment. <p>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none"> a material uncertainty related to going concern has not been identified management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	<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>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to appendix E</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported a significant weakness <p>We have nothing to report on these matters.</p>



2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Specified procedures for Whole of Government Accounts	<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 Group Instructions in relation to the work have not yet been issued by the NAO. We expect the Council to be below the threshold as has been the case in previous years.</p>
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2021/22 audit of South Ribble Borough Council in the audit report, as detailed in Appendix E, due to VFM work being incomplete and WGA.

3. Value for Money arrangements

Approach to Value for Money work for 2021/22

The National Audit Office issued its guidance for auditors in April 2020. The Code requires auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.



Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)



Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:



Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

3. VFM - our procedures and conclusions

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix G to this report. We expect to issue our Auditor's Annual Report by January 2023. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. In our audit plan we identified the risks set out in the table below. Our work on these risks is underway and an update is set out below.

Risk of significant weakness

Work performed to date

Deficiencies in the control environment

The Council has identified deficiencies in its control environment which were investigated by Internal Audit. In the 2019-20, we reported that management are aware of the issues and has put plans in place to address the issues.

In 2020-21, we reported that the Council has undertaken a significant amount of work to address the weaknesses however, further improvement is required and actions to resolve the remaining issues is planned for 2021-22.

We will assess the Council's progress in strengthening the control environment and actions taken to ensure compliance with policies and procedures.

As part of our risk assessment, we have completed a review of key documentation relevant to these risks, including Council and Committee papers and reports from Internal Audit.

We have undertaken a review of the overall governance arrangements in place at the Council in accordance with the VFM evaluation criteria although this work is ongoing.

At this stage, we have identified no material weaknesses to bring to your attention. However our work is ongoing and we will report more fully in our Auditor's Annual Report.

Our work on the value for money key criteria and our conclusions will be reported in our Auditor's Annual Report.

4. 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 May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

4. Independence and ethics

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.

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing Benefit Claim	18,005	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 £18,005 in comparison to the total fee for the audit of £65,296 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.
		Self review (because GT provides audit services)	To mitigate against the self review threat, the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

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 Governance Committee. None of the services provided are subject to contingent fees.

Appendices

A. Action plan – Audit of Financial Statements

We have identified three recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2021/22 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Medium	<p>Land & building assets held at historical cost</p> <p>We have identified several land and building assets on the assets register which are held at historical cost which is not appropriate under the CIPFA Code. Upon review and through inquiries of management, we have established there are some items which are a component of other buildings on the asset register and therefore double-counted.</p> <p>There is a risk that land & building assets are misstated in the asset register through double-counting or the valuation of such items is inaccurate.</p>	<p>The Council should review the accounting treatment for capital expenditure which forms a component of an existing property asset to consider whether componentisation is appropriate and ensure the assets are subject to revaluation in accordance with the CIPFA Code.</p> <p>Management response</p> <p>The Council agrees to review the accounting treatment of capital expenditure for components in line with the recommendation made – by 31 March 2023</p>
Medium	<p>Infrastructure assets</p> <p>From our review of useful lives applied to infrastructure assets, we identified that the basis for determining appropriate useful lives for different types of assets should be reviewed. The accounting policies include a range of 5-60 years for infrastructure assets however, there are additional sub-categories which should be assessed individually e.g. footpaths and bridleways, drainage, parks.</p> <p>There is risk that inappropriate useful lives are applied to assets which could result in a material error in the net book value and accumulated depreciation.</p>	<p>The Council should review the basis for estimating useful lives for infrastructure assets, considering the guidance in the CIPFA Bulletin and ensure the accounting policies are compliant with the requirements of the CIPFA Code.</p> <p>Management response</p> <p>The Council agrees to review the basis for estimating useful lives for infrastructure assets in line with the recommendation made – by 31 March 2023</p>

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

A. Action plan – Audit of Financial Statements

We have identified three recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2021/22 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Medium	<p>Cash to bank reconciliation</p> <p>Our review and testing of the year-end reconciliation of cash balances in the accounting ledger to the bank account has identified that the reconciliation only includes the Council's main bank account however, there are other bank accounts which should also be reconciled and reviewed at year-end.</p> <p>As part of our procedures we have reconciled the cash balances to the bank account, obtained direct confirmation from the banks and verified items that cleared in the bank after the reporting date. Therefore, we are satisfied the cash balance is not materially misstated.</p>	<p>We raised a similar recommendation in 2020-21 (see page 29) and management have started reviewing the cash to bank reconciliation process to ensure it covers all applicable cash balances in the account, and ensure it is fit for purpose as an effective check on the year-end balance.</p> <p>Management response</p> <p>Management fully agree with the recommendation made and will ensure it is implemented as quickly as possibly (By 31st December 2022)</p>

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

B. Follow up of prior year recommendations

We identified the following issues in the audit of South Ribble Borough Council's 2020/21 financial statements, which resulted in two recommendations being reported in our 2020/21 Audit Findings report.

We have followed up on the implementation of our recommendations and note one is still to be completed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	<p>Cash to bank reconciliation</p> <p>Our review and testing of the year-end reconciliation of cash balances in the accounting ledger to the bank account has identified some deficiencies.</p> <p>The reconciliation only includes the Council's main bank account however, there are other bank accounts which should also be reconciled and reviewed at year-end.</p> <p>The accounting ledger contains several reconciling items which could not be substantiated with supporting evidence. The total net value is £10k however, the absolute value is £290k.</p> <p>As part of our procedures we have reconciled the cash balances to the bank account, obtained direct confirmations from the banks and verified items that cleared in the bank after the reporting date. Therefore, we are satisfied the cash balance is not materially misstated.</p>	<p>We have not observed that the issues have been adequately addressed.</p> <p>The bank reconciliation only covers one of the Council's bank accounts.</p> <p>The bank reconciliation still contains a high volume of legacy reconciling items, some carried forward from 2019-20.</p>
✓	<p>Accounting for revalued assets</p> <p>Our review of the fixed asset register identified an formula error in the accounting for assets revalued at 31 March. Assets revalued as at the reporting date had a depreciation charge applied incorrectly resulting in the overstatement of depreciation and understatement of the net book value of assets. This was a material misstatement that has been adjusted in the accounts. The error also applied to the prior year however, this impact was trivial due to the value of assets subject to revaluation in the prior year.</p>	<p>Our work in this area is completed. We have not identified any issues with the accounting for revaluations.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

C. Audit Adjustments

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

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2022.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Revised IAS19 report (remeasurement including lump sum payment of employer contributions and adjustment to SRLLtd assets and liabilities transferred)	Interest cost 194	Net defined benefit liability 489	(489)
	Interest income (139)		
	Staff costs (32)		
	Re-measurement of the net defined benefit liability (Other comprehensive income) (512)		
Cash balance understated due to misstatement in recognising transfer between the Council and South Ribble Leisure Ltd	-	Cash & cash equivalents 647 Debtors (647)	-
Assets held at historical cost including Hurst Grange revaluation	Impairment 1,140	Land & buildings (992)	992
	Loss on disposal 74		
	Depreciation charge (397)		
	Revaluation through other comprehensive income 234		
	Reversal of accumulated depreciation through other comprehensive income (59)		
Overall impact	503	(503)	503

C. Audit Adjustments

Misclassification and disclosure changes

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

Disclosure	Details	Adjusted?
Prior year comparatives	The Council made some amendments to the prior year comparative figures which had been brought forward into the draft accounts inaccurately.	✓
Accounts consistency	Updates made to references in the accounts and minor amendments to ensure consistency.	✓
Narrative report	Updates to the narrative report to explain the change in group structure	✓
Remuneration disclosures	The Council made some amendments to the disclosures in the Officers Remuneration note. We identified some inaccuracies in the disclosures of exit packages paid during the year.	✓
Related parties	Additional disclosures of related parties in respect of the subsidiary South Ribble Leisure Ltd	✓
Interest in subsidiary	Additional disclosure of the Council's interest in the subsidiary South Ribble Leisure Ltd	✓
Critical judgements & uncertainty	The Council has amended the disclosures in note 4 to remove unnecessary narrative around the group accounts.	✓
Exit packages	Updates to correct the prior year disclosures	✓
Financial instruments	Updates made to disclosures of financial instruments	✓
Audit fees	Updates made to disclosure the full external audit costs in the accounts.	✓

C. Audit Adjustments



Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2020/21 financial statements

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
The external audit costs disclosure in note 31 has been updated to the correct total fees of £84,000 however, the overall expenditure in the Comprehensive Income and Expenditure Statement is has not been adjusted and is understated by £40,000.	External audit costs £40	Accruals (£40)	£40
Overall impact	£40	(£40)	£40

D. Fees

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

The fees reconcile to the financial statements.

Audit fees	Proposed fee	Final fee
Council Audit	65,296	tbc
Total audit fees (excluding VAT)	£65,296	tbc

Non-audit fees for other services	Proposed fee	Final fee
Certification of Housing Benefit Claim	£18,005	tbc
Total non-audit fees (excluding VAT)	£18,005	tbc

E. Draft audit opinion

Our draft audit opinion is included below.

We anticipate we will provide the Council with an unmodified audit report

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

Report on the Audit of the Financial Statements

Opinion on financial statements

We have audited the financial statements of South Ribble Borough Council (the 'Authority') and its subsidiary (the 'group') for the year ended 31 March 2022, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Statement, the Group Comprehensive Income and Expenditure Statement, the Group Movement in Reserves Statement, the Group Balance Sheet and the Group Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22, as updated in the Update to the Code and Specifications for Future Codes for Infrastructure Assets issued in November 2022 (the "Code Update").

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2022 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22, as updated by the Code Update; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical

responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Director of Finance use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority or group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority or the group to cease to continue as a going concern.

In our evaluation of the Director of Finance's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22 that the Authority and group's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the group and the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the group and Authority and the group and Authority's disclosures over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's or the group's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Director of Finance's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

E. Draft audit opinion

The responsibilities of the Director of Finance with respect to going concern are described in the 'Responsibilities of the Authority, the Director of Finance and Those Charged with Governance for the financial statements' section of this report.

Other information

The Director of Finance is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements, and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

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

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Director of Finance and Those Charged with Governance for the financial statements

As explained in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance. The Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22, as updated by the Code Update, for being satisfied that they give a true and fair view, and for such internal control as the Director of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

E. Draft audit opinion

In preparing the financial statements, the Director of Finance is responsible for assessing the Authority's and the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority and the group will no longer be provided.

The Governance Committee is Those Charged with Governance. Those Charged with Governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and Authority and determined that the most significant, which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Local Government Act 2003, the Local Government Act 1972 and the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992) and the Local Government Finance Act 2012 .

- We enquired of senior officers and the Governance Committee, concerning the group and Authority's policies and procedures relating to:

- the identification, evaluation and compliance with laws and regulations;

- the detection and response to the risks of fraud; and

- the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

- We enquired of senior officers, internal audit and the Governance Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.

- We assessed the susceptibility of the Authority and group's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to:

- journal entries that impacted income and expenditure or posted during the accounts production

- potential management bias in accounting estimates; and

- transactions outside the normal course of business.

E. Draft audit opinion

- Our audit procedures involved:
 - evaluation of the design effectiveness of controls that the Director of Finance has in place to prevent and detect fraud;
 - journal entry testing, with a focus on journals which impacted income and expenditure or posted during the accounts production;
 - challenging assumptions and judgements made by management in its significant accounting estimates in respect of valuation of land and buildings, the valuation of investment property and defined benefit pensions liability valuations;
 - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to the valuation of land and buildings, the valuation of investment property and defined benefit pensions l•

Our assessment of the appropriateness of the collective competence and capabilities of the group and Authority's engagement team included consideration of the engagement team's:

- understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
- knowledge of the local government sector
- understanding of the legal and regulatory requirements specific to the Authority and group including
 - the provisions of the applicable legislation
 - guidance issued by CIPFA, LASAAC and SOLACE
 - the applicable statutory provisions.

In assessing the potential risks of material misstatement, we obtained an understanding of:

- the Authority and group's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
- The Authority and group's control environment, including the policies and procedures implemented by the Authority and group to ensure compliance with the requirements of the financial reporting framework.
- For components at which audit procedures were performed, we requested component auditors to report to us instances of non-compliance with laws and regulations that gave rise to a risk of material misstatement of the group financial statements.

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

Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

Our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is not yet complete. The outcome of our work will be reported in our commentary on the Authority's arrangements in our Auditor's Annual Report. If we identify any significant weaknesses in these arrangements, these will be reported by exception in a further auditor's report. We are satisfied that this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2022.

Responsibilities of the Authority

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

E. Draft audit opinion

- Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources
- We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.
- We undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in December 2021. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:
 - Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
 - Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
 - Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.
- We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

Report on other legal and regulatory requirements – Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for South Ribble Borough Council for the year ended 31 March 2022 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed:

- our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources and issued our Auditor's Annual Report,
- the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2022.

We are satisfied that this work does not have a material effect on the financial statements for the year ended 31 March 2022.

Use of our report

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

Signature:

Georgia Jones, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

Liverpool

Date:

F. Audit letter in respect of delayed VFM work

Chair of Governance Committee

Civic Centre, W Paddock, Leyland PR25 1DH

29 November 2022

Dear Councillor Ian Watkinson, Chair of Governance Committee

The original expectation under the approach to VFM arrangements work set out in the 2020 Code of Audit Practice was that auditors would follow an annual cycle of work, with more timely reporting on VFM arrangements, including issuing their commentary on VFM arrangements for local government by 30 September each year at the latest. Unfortunately, due to the on-going challenges impacting on the local audit market, including the need to meet regulatory and other professional requirements, we have been unable to complete our work as quickly as would normally be expected. The National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation.

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our report no later than January 2023.

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours faithfully

Georgia Jones

Engagement Lead



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