

Auditor's Annual Report on West Lancashire Borough Council

2020/21

July 2023



Contents



We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



Section	Page
Introduction	3
Executive Summary	5
Significant weaknesses in arrangements	7
Key recommendations	9
Financial sustainability	13
Governance	16
Improving economy, efficiency and effectiveness	20
COVID-19 arrangements	26
 Appendices	
A – The responsibilities of the Council	28
B – An explanatory note on recommendations	29
C – Risks of significant weaknesses – our procedures and findings	30

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. 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.

Introduction

Summary of reporting to date

In January 2023 we brought an interim Auditor's Annual Report to the Audit and Governance committee. The purpose of the report was to update members of the Audit and Governance Committee as Those Charged with Governance (TCWG) with our interim findings on the Council's value for money arrangements for the 2020/21 financial year. Our work on the value for money conclusion was substantially complete, with some queries on procurement to follow up with officers.

We have now concluded that work and are issuing this final version of the report. Our financial statement audit is also complete subject to final checks and the re-approval of the revised financial statements, and we are issuing the final Audit Findings Report together with this report.



Value for money 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.

The auditor is no longer required to give a binary qualified / unqualified VFM conclusion. Instead, auditors 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 specified criteria. 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.

Our VFM work covers arrangements in respect of:

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

We have also considered the impact of the COVID-19 pandemic.

The significant risks we identified as part of our planning processes are reported on page 4.

Introduction (continued)

Significant risks

Our 2020/21 Audit Plan and Addendum to the Audit Plan reported to you on 28 July 2021 and 25 October 2022 noted the following significant risk areas for additional focus. The work to address the risk is also noted.

Financial Resilience

As part of our work on financial sustainability, we will consider your arrangements in setting, monitoring and reporting your budget.

Tawd Valley Developments Limited

As part of our work on governance and improving economy, efficiency and effectiveness we will consider your arrangements with the company, as well as the oversight by the Council of the company's business plans and outcomes.

Late production and poor quality of the financial statements

As part of our work on governance we will consider your arrangements in place for the preparation of the financial statements including the response to the audit process.

Procurement

As part of our work on governance and improving economy, efficiency and effectiveness we will review the arrangements the Council has in place to ensure appropriate procurement procedures are followed.

The outcome of our work to address the risks is noted in the executive summary on page 5, and detailed in Appendix C.

Use of formal auditor's powers

The following are the formal powers that auditors can consider as part of their work. We do not consider use of formal powers to be required.

Statutory recommendations

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly

Public interest report

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.

Application to the Court

Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.

Advisory notice

Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority:

- is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure,
- is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or
- is about to enter an item of account, the entry of which is unlawful.

Judicial review

Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.

Executive summary



Value for money arrangements and key recommendations

A summary of our findings is noted below. There are three significant weakness areas identified. These are reported in detail on pages 6 to 7 with four key recommendations on pages 8 to 12.

Criteria	Risk assessment – planning stage	Conclusion after work conducted
Financial sustainability	Potential risk of significant weaknesses identified in relation to financial resilience	No significant risks identified but we have made one improvement recommendation.
Governance	Potential risks of significant weakness identified in relation to the late production of the financial statements	Significant weaknesses identified in relation to the late production and quality of the financial statements, and the management reporting structure of Internal Audit. Two key recommendations are reported and two improvement recommendations.
Improving economy, efficiency and effectiveness	Potential risk of significant weaknesses identified in relation to procurement and in relation to Tawd Valley Developments Limited	Significant weakness identified in relation to procurement. Two key recommendations are reported and three improvement recommendations.

- No significant weaknesses in arrangements identified or improvement recommendation made.
- No significant weaknesses in arrangements identified, but improvement recommendations made.
- Significant weaknesses in arrangements identified and key recommendations made.



Financial sustainability

Our review of the Council's financial sustainability indicates that West Lancashire Borough Council completed the 2020/21 financial year in a breakeven position and continues to demonstrate a stable financial position. The Council is currently developing plans to address medium term deficits from 2023/24 onwards.

Overall, we are satisfied that the Council has appropriate arrangements in place to manage risks to its financial sustainability.

We have not identified any risk of significant weakness, but we have identified one improvement recommendation. Further details can be found on pages 12 to 14 of this report.



Governance

Our work has focussed on developing an understanding of the governance arrangements in place at the Council and the changes instigated as a response to the pandemic. We have looked at business-as-usual governance and adapted structures for COVID-19 including a review of the arrangements for the internal audit function and reporting, risk management, budget management, financial reporting and internal controls.

There were significant delays in producing the first draft of the financial statements for the financial statement audit and a number of material adjustments were required. The length of time to conduct the audit has been significant, with delays to July 2023 largely due to queries relating to Property, Plant and Equipment and Investment Properties valuations. Therefore, we have concluded that during 2020-21 the Council did not have satisfactory arrangements in place to prepare timely financial statements that are free from material error.

A second issue identified is that a recent restructure and change in reporting responsibility for Internal Audit may give rise to potential conflicts of interest or independence threats. The Council does not have satisfactory arrangements in place to ensure the role of Internal Audit has the required impact and effectiveness due to the change in responsibilities and reporting structure.

Overall, we have identified significant weaknesses in the late production and quality of the financial statements and with the management reporting structures for Internal Audit. These are set out in more detail on page 7 with key recommendations on pages 9 to 10.

Our other reporting of governance can be found on pages 16 to 20 including three improvement recommendations.

Executive summary (continued)



Improving economy, efficiency and effectiveness

Our work has focused on understanding the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

We looked at Tawd Valley Development Ltd and how changes to these arrangements contribute to VFM at the Council and the Council's oversight and governance arrangements in place. We did not identify any significant matters to report in this respect.

We identified a significant weakness regarding procurement compliance, other Council arrangements within this theme were found to be adequate. The significant weakness in procurement arrangements is set out in more detail on page 8 and we have made **two** key recommendations relating to this on pages 11 to 12.

The Council has identified instances of non compliance with internal financial regulations, and contract procedure rules in the record keeping for some contracts.

The Council does not have satisfactory arrangements in place to ensure all procurement procedures are followed.

Our other reporting of the arrangements can be found on pages 21 to 26 including two improvement recommendations aimed at further strengthening the arrangements at the Council for improving economy, efficiency and effectiveness.



COVID-19 arrangements

The impact of COVID-19 has presented new risks to the Council, and this has cut across all service areas.

Our review has not identified any significant weaknesses in the Council's VFM arrangements for responding to the Covid-19 pandemic.

Further details can be seen on page 27 of this report.

Significant Weaknesses in arrangements

Timing of the production and quality of the financial statements

The audit deadline was missed in 2018/19, and in 2019/20 the draft 2019/20 financial statements were therefore late. The audit opinion for 2019/20 was issued in June 2021. The delay was due to issues with the quality of the financial statements and the low level of engagement with the audit process. In 2019/20 the VFM Conclusion was an 'except for' conclusion and the issues experienced were similar to the previous year.

The draft 2020/21 financial statements were late, received for audit in November 2021. The audit began but there was a low level of engagement, a high number of queries and samples with inadequate or no responses, as well as a significant number of amendments identified. We withdrew from the audit in March 2022 with a view to return in July 2022 when the issues identified were rectified. In the mean-time the Council carried out a full review of the financial statements for 2020/21 and produced a revised version with material amendments. The Council were not ready to resume the audit in July 2022 as all queries had not been resolved and group accounts or Property, Plant and Equipment (PPE) updated valuations were not yet within the financial statements. A revised date of October 2022 was agreed to recommence the audit. Version 3 of the accounts was with additional material amendments within them as a result of completing all our queries we had raised. We have also asked for an internal technical review of the financial statements and there are a number of additional significant disclosure changes required as a result.

The response to the audit process has improved since resuming the audit in October 2022, but the number of material amendments in the financial statements is significant including a prior period adjustment when compared to version 1. The quality of version 1 of the financial statements submitted for audit was inadequate - group accounts were not prepared, little consideration given to PPE valuations and the turnover of staff and capacity issues in the internal valuation team at the Council is proved a challenge for the audit.

The Council did prepare their draft financial statements for 2021/22 on time and they were authorised for issue on 27 July 2022. Therefore, the Council is showing improvement in the timeliness of the preparation of their financial statements.

Conclusion

The Council does not have satisfactory arrangements in place to prepare timely financial statements that are free from material error, and this is a significant weakness. We have raised one key recommendation in relation to this issue.

Internal Audit management arrangements

Following a management restructure across the Council taking place after the 2020/21 financial year end, the former role of the Internal Audit Manager, the effective "Chief Audit Executive" per the Public Sector Internal Audit Standards (PSIAS) has now been rebranded as the Corporate Compliance and Governance Manager (CCGM). The new direct reporting for the post is into the Director of Finance (s151 Officer). The role has responsibilities for the following services at the Council:

- Internal Audit Services,
- Procurement,
- Information Governance including Counter Fraud Services and
- Risk and Insurance.

We acknowledge that the restructure has been partly driven by the need to centralise the procurement function in response to some internal audit reports on procurement issues. The centralisation of the procurement function and the raised profile that comes with the appointment of a senior officer within the corporate team is something we strongly support. However, in our view, the new arrangements creates a significant weakness in the Council's risk management strategy as it compromises the independence of the Head of Internal Audit and creates a 'self-review' threat. Efforts to mitigate these risks, such as excluding the Head of Internal Audit from working on the procurement function, also undermines the Internal Audit process by removing the senior officer responsible for the annual Head of Internal Audit Opinion from the process. This is particularly acute, as Procurement is an area that requires significant further Internal Audit follow up and review. Other potential conflicts of interest arise from responsibility for compiling the risk assurance process, which is also a key element of setting the internal audit plan.

There is a further potential independence threat associated with the Head of Internal Audit reporting to the Director of Finance, who would also be a key responsible officer for much of the subject matter that Internal Audit would be reviewing. We understand that the CCGM has unfettered access to the Chief Executive, Chief Operating Officer and Chair of the Audit and Governance Committee but we have concerns that this does not entirely remove the threat to independence. Collectively, these threats to independence are significant and are likely to undermine the effectiveness and impact of the Internal Audit Service.

Conclusion

The Council does not have satisfactory arrangements in place to ensure the role of Internal Audit has the required impact and effectiveness due to the change in responsibilities and reporting structure, and this is a significant weakness. We have raised one key recommendation and one improvement recommendation in relation to this issue.

Significant Weakness in arrangements (continued)

Control failures in Procurement

We note that post the 2020/21 year-end as part of the 2021/22 audit plan, Internal Audit had found significant control issues with procurement undertaken on a contract. The total value of the procurement stated in the report was £769,450. Some of the transactions under review had taken place in 2020/21. The outcome was a 'no assurance' report with 14 high priority recommendations. The control weaknesses identified in this report, were of a similar nature to the findings of as previous report on undertaken in 2018/19.

Failure to observe Financial Regulations, contract procedure rules and a failure to maintain adequate records has exposed the Council to legal challenge from potential suppliers and could put the transactions in breach of the Council Constitution.

We reviewed the internal audit reports to ascertain whether control weaknesses in procurement are systematic and reflective of procurement across the Council. We determined that further work would be required to ascertain the extent of the issue and whether this was reflective of broader issues with major procurement exercises.

We tested additional procurement documentation for a sample of contracts and no additional issues were identified. The Council identified that one of the contracts chosen for testing had issues with the previous procurement process and was subject to an internal audit review in 2020/21 which included some procurement elements, and the report noting that Council procurement rules had not been followed.

Conclusion

The Council does not have satisfactory arrangements in place to ensure all procurement procedures are followed, and this is a significant weakness. We have raised two key recommendations and one improvement recommendation in relation to this issue.

Key Recommendation 1



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

Recommendation The Council must improve the timeliness of their financial statements preparation and ensure that effective quality review processes are in place to present draft financial statements that are in accordance with accounting standards and reporting requirements, and free from material error.

Why/impact Having financial statements that are audited within expected timelines is an important part of the Council's governance and financial reporting processes. Delays in the audit due to the significant delay and ability of the Council to respond to audit issues and request for evidence impacts the delivery of current and future audits, making it very difficult to get back on track for any future audit years.

Summary findings The financial statements audit is substantially complete for 2020/21. We received the 2020/21 financial statements for audit in November 2021 after the deadline. There were significant delays in producing the first draft of the financial statements and a number of material adjustments were required to get to a final audited version. The length of time to conduct the audit has been significant, with further delays suffered into 2023 largely due to queries relating to Property, Plant and Equipment and Investment Properties valuations.

Management comment We acknowledge the delays in the production of the financial statements for 20/21. To a large degree these were due to us introducing changes to the working practices and processes within the team for the production of the accounts. This work is now complete and the 21/22 Draft Accounts were completed within the timescales. We are in the process of reviewing how the property valuation work is completed with a view to externalizing the 22/23 work to a national provider with familiarity of the audit requirements.

The range of recommendations that external auditors can make is explained in Appendix B.

Key Recommendation 2



The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council We have defined this recommendation as ‘key recommendation’.

Recommendation	The Council should ensure that the role of the Chief (Internal) Audit Executive maintains sufficient independence, from operational activities that may be subject to review. Consideration should also be given to restructuring the role to report directly into the Chief Executive and with unfettered access to the Chair of the Audit and Governance Committee in line with best practices and as recommended by the Public Section Internal Audit Standards (PSIAS).
Why/impact	Lack of independence on the part of the Chief Internal Auditor may compromise their ability to discharge their function effectively, particularly in regard to coverage of operational activity in the procurement function and the resources directorate more generally.
Summary findings	<p>A high level of independence is required by PSIAS and the Council's Risk Management Toolkit which restricts the role of the internal audit function to providing independent assurance rather than management of other services of the Council. At present the Councils’ nominated Chief Internal Auditor has other operational responsibilities, such as management of the Procurement Department, Insurance Services and Information Governance.</p> <p>We note that the role also reports directly to the Director of Resources. While not uncommon in other Councils, this can be an additional obstacle to independence due to the extent of focus of the internal audit plan of financial matters and processes.</p> <p>Given the significant issues identified in the Council’s procurement arrangements, it is particularly important that the Council’s Chief Internal Auditor is able to maintain independence from both the procurement function and the resources directorate in which it sits.</p>
Management comment	We accept the recommendation. We are reviewing the reporting lines of Head of Audit and Governance and in future the post will report directly to the Chief Operating Officer with the Director of Transformation, Housing and Resources undertaking day to day line management responsibility. The post already has un-restricted access to the Chair of Audit and Governance Committee. The Procurement Manager will, with immediate effect, report directly to the Head of Finance (Section 151). The Head of Audit does not currently report to the Director of Resources as stated above but to the Head of Finance. We feel that changing the reporting lines in this way will ensure the independence required.

The range of recommendations that external auditors can make is explained in Appendix B.

Key Recommendation 3



The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council We have defined this recommendation as ‘key recommendation’.

Recommendation	The Council must fully address the fourteen recommendations set out in the procurement audit report as a matter of priority. Assurance must be provided to members on progress and mitigating actions taken to protect the Council while new processes embed. The Council should also consider how lessons learned can be recognised and embedded across the Council.
Why/impact	We acknowledge that the Council has taken significant steps to restructure and centralise the procurement team in the future, in response to the findings of the procurement audit. However, it is important that the specific control failures highlighted are addressed in detail, over and above the improvements in leadership and high level corporate control.
Summary findings	We note that post 2020/21 year end as part of the 2021/22 audit plan, Internal Audit had found significant control issues with procurement undertaken on a Council contract. Some of the transactions under review had taken place in 2020/21. The outcome was a ‘no assurance’ report with 14 high priority recommendations. The control weaknesses identified in this report, were of a similar nature to the findings of as previous report undertaken in 2018/19.
Management comment	We accept the recommendation made and note the acknowledgement of the steps taken to date to centralise all procurement work within the Council. In terms of the recommendations made in the audit report, these are now implemented with the exception of the full centralization which is in progress. All audit recommendations are being tracked and regular progress updates are being provided to the Corporate Management Team and taken to Audit and Governance Committee. Centralising the Procurement function will ensure compliance and consistency of practice in relation to procurement activity in future.

The range of recommendations that external auditors can make is explained in Appendix B.

Key Recommendation 4



The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council We have defined this recommendation as ‘key recommendation’.

Recommendation The Council should undertake a sample review of procurement activity that meets the threshold requiring competitive tender under financial regulations and contract procedure rules, from 2020/21 through to the present, to ascertain whether there were further examples of significant non-compliance with the Council’s Contract Procedure Rules, Financial Regulations and OJEU procurement regulations.

This should include all current major procurements meeting the tender threshold.

Where any cases of non-compliance are found, assurance on the lawfulness of associated payments in regard to the Council’s Contract Procedure Rules, Financial Regulations and OJEU procurement regulations should be obtained from Legal Services and reported to members along with an assessment of the exposure to risk.

Why/impact	We acknowledge that the Council has taken significant steps to restructure and centralise the procurement team in the future, in response to the findings of the procurement audit. However, it is important that the Council can identify and assess if similar issues have occurred in other procurement processes.
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Summary findings	We note that post 2020/21 year end as part of the 2021/22 audit plan, Internal Audit had found significant control issues with procurement undertaken on a Council contract. Some of the transactions under review had taken place in 2020/21. The outcome was a ‘no assurance’ report with 14 high priority recommendations. The control weaknesses identified in this report, were of a similar nature to the findings of a previous report undertaken in 2018/19.
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Management comment	We accept the recommendation. And will undertake the sample review as stated. Any areas where non-compliance is found assurances will be sought as set out and findings reported to members with an assessment of risk.
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The range of recommendations that external auditors can make is explained in Appendix B.

Financial sustainability



We considered how the Council:

- identifies all the significant financial pressures it is facing and builds these into its plans;
- plans to bridge its funding gaps and identify achievable savings;
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning; and
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

2020/21 Financial Overview

The Council was able to deliver a breakeven financial position in line with budget in 2020/21, and continued to project a sustainable position following two challenging financial years under pandemic conditions (2020/21 and 2021/22).

The Council was able to deliver a revenue surplus of £0.27m under budget for 2020/21. The Council was already in the process of managing increased financial pressures at the start of 2020/21 and the position was made significantly more challenging with the need to deliver services under COVID-19 conditions. This outcome was achieved with the help of additional funding received, including COVID-19 un-ringfenced grant of £1.75m of which £0.5m was able to be carried forward to 2021/22, in combination with savings and planned use of reserves.

We note that the outturn for 2021/22 is also positive, enabling a further contribution to reserves.

The relatively healthy financial performance for 2020/21 extended to the Housing Revenue Account (HRA), where a favourable budget variance of £0.517m was achieved.

Capital expenditure outturn of £8.4m in 2020/21 reflected 76% of the budgeted programme. It is not unusual for capital budgets to be underspent, particularly as councils emerge from pandemic conditions and the Council has taken care to explain the variances and re-phasing in its public reporting.

Medium term financial pressures

The Council has recognised that it faces further significant financial pressures in the context of uncertain economic conditions, that will need to be addressed as a matter of urgency over the medium term. Acknowledging the capacity issues in producing 2020/21 accounts and the subsequent delay to the audit process, we have considered Medium-Term Financial Forecast (MTFF) revisions in 2021/22 and the latest iterations for the five years from 2022/23.

At the start of the financial year 2020/21 the Council was working to a MTFF that projected an emerging funding gap of £1.9m by 2021/22.

The forecast position was revised to £1.2m during the 2021/22 budget setting process and we note that in September 2022 the Council were forecasting a significant budget funding gap rising to £3.014m over the three-year period 2023/24 to 2025/26.

We note that over 2020/21 and 2021/22 the Council has been able to deliver at or in excess of plan and has established a good track record of devising prudent and accurate financial forecasts over this period. Particularly in areas of key sensitivity include income generation projections and the impact of high-costs and inflation. The Council's process of providing regular updates to Cabinet and Council on the medium-term position will become increasingly important.

Financial sustainability (continued)

Arrangements to close the projected funding gap

In order to address the original medium term funding gap of £1.9m, the Council implemented its Sustainable Organisational Review Process (SORP) to close the gap by 2022/23. Approximately £1m of savings were delivered from management restructures by the financial year 2020/21, however a further £0.9m of additional income generation schemes could not be delivered primarily due to disruption caused by the pandemic. Following revision of the MTF in July 2021, additional savings schemes of £0.43m were approved and incorporated into the 2021/22 budget. We are therefore satisfied that arrangements were adequate for 2020/21 and that the Council has demonstrated a good track record of financial management in this regard.

While the financial position has been managed over the past two years, without major revisions to the SORP, it is likely that this will be required for 2022/23 and over the medium term, and it is likely that finance and the Council service departments will need to be equipped and supported to facilitate a renewed period of transformational change. We have raised a recommendation in this report regarding this matter.

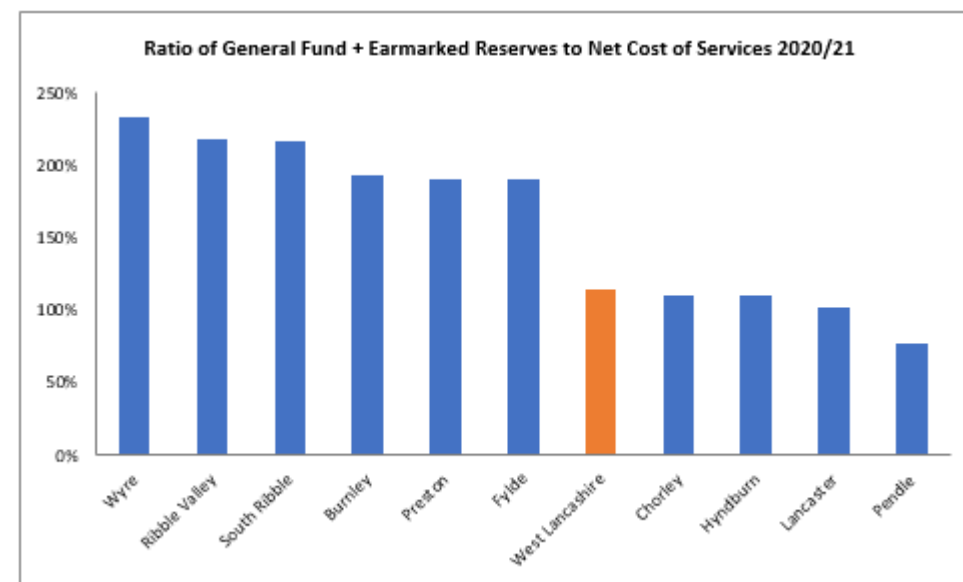
Aligning finances to wider strategy

We have reviewed the extent to which the Council financial plans were appropriately linked to corporate strategy and other supporting plans and found that this was generally done well, however we note that the plans for delivery of a balanced budget for 2023/24 and beyond is not fully documented. We have raised an improvement recommendation for this aimed at improving the existing arrangements at the Council.

Managing financial risk

The Council has operated a policy of using the planned drawdown on reserves to close short term funding gaps, while sustainable mitigating schemes are developed and implemented over the medium term. In order to bridge the funding gap, while the SORP and other savings were delivered, the 2020/21 budget included the planned use of £0.78m of reserves, which reduced to £0.51m following better than expected outturn. A further £1.24m of reserves were planned for use in 2021/22 however, this was not required following better than expected outturn.

We have undertaken benchmarking of reserves as a proportion of the net cost of services, against neighbouring district councils. While the Council is not notably more vulnerable than other Councils, it is towards the lower end of the rankings. This indicates that, although there remains some scope to continue to use reserves to enable the phasing of sustainable savings, the opportunity is limited and must be closely controlled during the current period of enhanced financial uncertainty and risk. Note that the benchmarking includes all general and earmarked usable reserves, whereas in reality, only a portion of this would be available for use in managing financial risk due to much of it being already committed for specific purposes.



Conclusion

Overall, we are satisfied that the Council has appropriate arrangements in place to ensure it manages risks to its financial sustainability. We have not identified any risk of significant weakness, but we have identified opportunity to for improvement, included overleaf.

Improvement recommendations



Financial sustainability

1. Recommendation	The Council as a matter of priority should document plans for delivering savings to balance budget for 2023/24 and in future years of the Medium Term Financial Forecast (MTFF). The plan should be sufficiently detailed and subject to regular process of monitoring by the appropriate Committee. We note from interview with the S151 Officer that the Council has established a Budget Committee. This shows the Council's intention to prioritise financial sustainability as an area of focus.
Why/impact	Failure to document savings plans and subject them to adequate scrutiny may impact on the council's ability to deliver a balanced budget.
Summary findings	Review of the council's MTFF identified that the Council is yet to identify savings to balance the budgets for 2023/24 and beyond. The council has recently inaugurated a Budget Committee with responsibility for monitoring financial performance including the budget. Interview with S151 Officer confirmed the Council is considering a few options including rationalisation of its estates. However, the Council is yet to formalise these options into a programme to enable delivery.
Management comment	Savings plans are being developed at present to bridge the MTFF budget gap and will be presented to the Budget and Council Plan Committee for consideration and to February 23 Council for approval.



The range of recommendations that external auditors can make is explained in Appendix C.

Governance



We considered how the Council:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- approaches the financial statements and audit process
- ensures effectiveness processes and systems are in place to ensure budgetary control
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency
- monitors and ensures appropriate standards.

Governance Overview

Our review identifies that the Council has worked hard to strengthen arrangements over several areas in 2002/21 and subsequently. Having gone through the significant challenges posed by the pandemic these changes should better equip the Council to meet current challenges such as rising costs and national recruitment difficulties. We note that in regard to the revised role of the Head of Internal Audit, there are a number of issues that need to be resolved.

Monitoring and Assessing Risk

The Council has approved and adopted a Local Code of Corporate Governance which is consistent with the principles of the CIPFA/SOLACE Framework for Delivering Good Governance in Local Government 2016. The Council also fulfils a governance role in the oversight of Tawd Valley Development Company, a wholly owned subsidiary of the Council.

The Council has a Risk Management Policy which is part of the Council's overall risk management framework. The aim of the Council's framework is to ensure that risks are identified, managed and reported efficiently and effectively to improve efficiency and the delivery of services, improve allocation of resources and enhance risk reporting. The Council's risk management framework also includes an annual risk assessment process carried out through the Corporate Risk Register (CRR) reviewed by the Executive Overview and Scrutiny Committee and presented to the Cabinet annually. We are satisfied that the Council's arrangements for managing and assessing risk were adequate throughout 2020/21, and we will follow up continued effectiveness in our 2021/22 audit.

Budget Setting Process

We have looked at the budget setting process followed for 2021/22 and noted the good level of information provided to Cabinet and full Council at several intervals throughout the year. The process is multi-layered, involves the finance staff and responsible officers (budget managers and their staff) for the budget area.

The budget for each year is presented in the form of a General Revenue Account (GRA) estimate to Cabinet for review in or around January and sent to full Council for approval. The budget is usually presented along with additional papers such as the GRA Reserves Policy which describes the reserves protocol of the Council and includes details and values of reserves maintained by the Council. The GRA estimate is an update to the council's MTFF and is considered separately.

Budgetary Control and Financial Reporting

We are satisfied with the process in place for oversight of the budget. The finance department engage with budget holders monthly. The frequency and content of quarterly budget monitor reports, outturn and ongoing revisions to the medium-term position to Cabinet and Council, are effective and well established, and facilitate challenge. This will become increasingly important as the financial position becomes more challenging from 2023/24 onwards.

During 2019/20, the external audit team experienced significant delays with receiving audit working papers and supporting documents for the financial audit. This continued in 2020/21. Inquiries with the s151 Officer revealed the cause of the delay due to the departure of some of the key members of the finance and valuation team, the pandemic and the time to train and development graduate and new staff.

The s151 Officer confirmed the team is now better resourced with the arrival of some new key senior team members. Some further delay experienced in completing the 2020/21 statement of accounts was due to new team members refining the financial reporting process to enable seamless process to produce future statements of accounts. The 2021/22 Statements of Accounts were produced in line with the published requirements and the audit will commence of the 2021/22 statements once the 2020/21 audit is complete.

Governance (continued)

Significant weakness – timing of the production and quality of the financial statements

The quality and timeliness of the financial statements produced for audit and the length of time to conduct the audit indicate significant weaknesses in the Council's arrangements. We have made a key recommendation relating to this matter.

Monitoring and Ensuring Appropriate Standards

The Council has effective arrangements to monitor and enforce standards. As part of these arrangements, we noted that the Corporate and Environmental Overview and Scrutiny Committee is responsible for considering reports from the Local Government and Social Care Ombudsman and the Housing Ombudsman. A report received from Ombudsman for 2020/21 included a summary of sixteen complaints against the Council for which two cases were upheld. One of the upheld cases resulted into a formal apology from the Council while the other case resulted in a recommendation for the Council to review and revise its tenancy agreements and complaints processes for allotment sites. This is a good example of effective and transparent arrangements being implemented during the year.

Internal Audit Services

We note that in common with many Council's, the internal audit function is provided by an in-house team. The function covers Internal Audit Services and arrangements for reviewing and preventing fraud and corruption.

In 2020/21, progress through the audit plan was affected by the pandemic. We note that the audit team is served by one full time Internal Audit Manager and 2.8 FTE Internal Auditors and note that the demand for potential internal audit reviews continue to challenge the capacity of the team.

We considered the extent to which Internal Audit recommendations are being implemented by the Council and whether they are implemented on a timely basis. This we sought to assess through review of the annual internal audit report and by interviewing the Council's Chief (Internal) Audit Executive. Our review identified areas for improvement in the reporting of progress against internal audit findings and in the monitoring of internal audit services at the Council, and we have raised an improvement recommendation to address this.

The Council participates in the National Fraud Initiatives (NFI) data matching exercise carried out centrally by the Cabinet Office and aims to identify potential fraud cases by matching various datasets from the Council's transactions against other similar information nationally. However, there is no evidence that the datasets released to the Council are followed up adequately as the Council does not have a dedicated counter fraud officer and relies on the various departments to review the datasets without any formal reporting or adequate monitoring of the review. We have made a recommendation on this point to make sure that NFI data is used appropriately to help mitigate fraud.

Significant weakness – internal audit management arrangements

During 2021/22, we note that the Internal Audit Manager's responsibility was enlarged to include management of the Council's procurement team and risk management. In our view, the arrangements outlined above creates a significant weakness in the Council's risk management strategy as it effectively creates issues of independence and 'self-review' threat. We have reviewed these arrangements, both in terms of team capacity and managing potential independence issues and self-review threats and concluded the current arrangement, particularly around procurement services creates significant risks to the Council and we have made key recommendations relating to this matter. Further information on this issue and the key recommendations we have made are included in the executive summary to this report.

Conclusion

Overall, other than where noted, there are no further significant weaknesses identified in the Council's governance arrangements.

We have identified significant weaknesses in the existing arrangements of the Internal Audit reporting structure, and in the timeliness and quality of the financial statements.

We have made key and improvement recommendations aimed at strengthening the arrangements at the Council.

Improvement recommendations

Governance

1. Recommendation	The Council should improve on the annual internal audit report by including a summary of the implementation of internal audit recommendations and take steps, via the Audit Committee, to hold services to account for taking effective and timely action to address these during the year.
Why/impact	It is important that Internal Audit maintains a high level of status and credibility within the Council, and specifically, that internal audit findings and recommendations are effectively and promptly addressed. Failure to regularly monitor action taken by Council departments to address recommendations can undermine the effectiveness of the internal audit function.
Summary findings	We noted that in the Internal Auditors Annual Report to the Audit Committee, there was limited information on the delivery of recommendations arising from Internal Audit Reviews during the year.
Management comment	We accept the recommendation. The 21/22 Annual Internal Audit Report includes a summary of progress on the implementation of recommendations. We will expand the information and explanation. We would point out that we report progress on the implementation of all audit recommendations at each Audit and Governance Committee.



The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations

Governance

2 Recommendation	<p>The Council should consider how it uses the National Fraud Initiatives datasets released by the Cabinet Office NFI team and improve on the reporting of the follow-up (within the internal audit report) to the Audit and Governance Committee of the Council on the work undertaken and outcomes of work undertaken. The Council may wish to consider inclusion of the following in the annual internal audit report:</p> <ul style="list-style-type: none"> ▪ Summary of potential fraud matches flagged by the NFI data matches ▪ Summary of actual work carried out on the datasets with the highest level of risk
Why/impact	<p>Without monitoring the work undertaken on the datasets flagged as suspicious for further review by the Cabinet Office NFI team, likelihood of the council's officers carrying out reviews is highly unlikely especially when these officers already have other competing and important day jobs to fulfil.</p>
Summary findings	<p>Cabinet Office estimates that fraud and error is likely to be in the range of 0.5% and 5% for the £503 billion of government expenditure where fraud and error is not measured (source: Fraud and Error - The Committee of Public Accounts - House of Commons (parliament.uk)). The Council participates in the National Fraud Initiatives NFI data matching exercise carried out centrally by the Cabinet Office and aims to identify potential fraud cases by matching various datasets from the council's transactions against other similar information nationally. However, there is no evidence that the datasets released to the Council is followed up adequately as the Council does not have a dedicated counter fraud officer and relies on the various departments to review the datasets without any formal reporting or adequate monitoring of the review.</p>
Management comment	<p>We will review and consider the inclusion of the information set out in the recommendation. High risk data matches are investigated fully. All findings are reported back to the Cabinet Office as required and summary details of findings are reported to the Audit and Governance Committee.</p>



The range of recommendations that external auditors can make is explained in Appendix C.

Improving economy, efficiency and effectiveness



We considered how the Council:

- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships, engages with stakeholders, monitors performance against expectations and ensures action is taken where necessary to improve
- ensures that it commissions or procures services in accordance with relevant legislation, professional standards and internal policies, and assesses whether it is realising the expected benefits.

Overview of arrangements for securing economy, efficiency and effectiveness

Overall, we are satisfied that the Council has adequate arrangements in place to continually monitor and manage its performance to ensure value for money in the delivery of its services. The on-going review and subsequent re-prioritising of the Tawd Valley development company provides evidence of this willingness to review and change its approach based on changing outcomes. However, we do have concerns over the procurement process issues identified by Internal Audit during 2020/21 and we consider this a significant weakness in arrangements that needs to be addressed.

Review of Service Performance, Monitoring and Assessment

West Lancashire Borough Council's vision is "West Lancashire together; the place of choice to live, work, visit and invest". To achieve this vision, the Council has put together the following priorities:

- Create empowered, engaged and inclusive communities
- Support businesses to adapt and prosper
- Become a greener West Lancashire
- Be a financially sustainable Council by 2023
- A clean, safe environment with affordable homes to buy or rent for everyone in West Lancashire
- Everyone to be healthy, happy, safe and resilient.

The Council produces a corporate performance indicator quarterly to report performance across services carried out by the Council. Our review of the Q4 2020/21 report identified that the report was easy to understand and uses a good combination of symbols, numbers and commentary. We note that the report is also divided into the following six sections: Shared Services, Corporate & Customer Services, Housing & Regulatory Services, Environmental Services, Growth and Development Services, Wellbeing and Leisure Services. The report also shows trends in the form of performance from previous quarters and includes benchmark information where possible.

The Council has developed a set of performance indicators (PI's) to assess and monitor performance across the Council's services and reports on this quarterly. A review of the quarterly performance indicators for Q4 2020/21 highlights a total of 36 KPIs with measurable targets of which 26 indicators met or exceeded target. The performance report is easy to read, includes the Council's planned target (where one is set), includes comparatives against similar quarters of the previous year where available. The PIs are able to be used by the Council as a vehicle to drive corporate strategy by mapping PI's to Council priorities.

The PI's could make better use of benchmarking against Councils of similar size in the England. In addition, the PI's did not have any metric to monitor Financial Sustainability, despite this being an increasingly important priority. We have raised recommendations aimed at strengthening arrangements at the Council. The Council consistently reports on details of spend £500 in line with Government's transparency initiatives. However, inquiry from management about the use of benchmarking of costs of providing services across the council identifies that the Council does not currently benchmark its costs against those of comparative councils.

Improving economy, efficiency and effectiveness (continued)

Commercial activity – Tawd Valley Development Ltd

The Council has set up a wholly owned subsidiary company, Tawd Valley Developments Limited, established in 2018. The subsidiary provides a commercial housing development service with the following aims:

- To provide quality, value for money, homes across a range of tenures for the people of West Lancashire
- To deliver new homes through effective procurement of suppliers and contractors
- As far as possible given the market in the borough deliver schemes on time and to budget
- To deliver financial returns which are able to be reinvested into further schemes,
- To deliver financial returns for the Council as shareholder and lender to the Company.

The subsidiary is currently configured and operating on a commercial basis and was intended to generate significant financial returns for the Council in future years. However, during 2020/21 the ability of the company to deliver financial returns of the scale originally envisaged became increasingly unlikely. The subsidiary had been budgeted to make a significant contribution to Council income within the Council's medium term financial forecast providing a key element of the future financial sustainability. However, recent performance of the subsidiary has led to the Council significantly reducing the planned contributions from the company in the Council's Medium Term Financial Forecast. This reflects prudent financial management arrangements on the part of the Council and the financial risk has therefore been mitigated in 2020/21 and 2021/22.

We note that the post COVID economic landscape and changes to the rules around out of borough investment has significantly reduced the potential for commercial benefit in line with the original business case.

We have considered the high-level governance and decision making in relation to the set up and running of the development company and are satisfied that the company has sufficient arrangements in place for governance and decision making. We are also satisfied that this was not a reflection of the premise of the original business case, but rather of a changing regulatory and economic landscape, including future access loans from Public Works Loan Board (PWLb).

The commercial performance of the subsidiary was closely monitored by the Council during 2020/21 and the risks to future viability were understood and presented to members for review. We also note that in 2021/22 the Council continued to monitor the performance of the subsidiary and had undertaken an independent review of the operations and future viability of the subsidiary to inform decision making. An initial decision to pause any further investment in the subsidiary was followed by a decision to continue operations under a revised business case.

We understand that a revised business case will be submitted to members for the subsidiary by the end of 2022/23. If the Council decides to continue supporting the subsidiary, it should be on the basis of a revised business case with clearly defined performance indices through which the Council will continue to review and evaluate performance over the medium term. We have raised an improvement recommendation to this effect. We will continue to monitor progress on this issue in our 2021/22 audit.

We also noted that the accounts of the subsidiary were not consolidated into the initial draft of the Council's 2020/21 Financial Statements. This issue was raised through our audit of the Council's financial statements and will be incorporated into the final audited version. We note that the draft 2021/22 financial statements includes group accounts for Tawd Valley Development Ltd.

Improving economy, efficiency and effectiveness (continued)

Other Partnerships and Commercial Activity

The Council works closely with partners to help deliver services across the Council. These include Serco who provided leisure services across the borough, Lancashire County Council and BT Lancashire Services (BTLS). BTLS had a ten-year contract with the Council for the provision of Revenues, Benefits and IT Services since October 2011, we note that this ended during 2021/22 and the Council has taken the decision to bring the service back in-house. We note that the Council's risk register rightly includes risks to delivery of the service in-house and this should ensure on going monitoring and management of the risks associated with managing the services in house. We will continue to monitor the management of this risk during 2021/22.

Procurement Services

The Council's procurement service is managed internally and was in 2020/21 decentralised, meaning that individual services were responsible for their own compliance with procurement policy and achieving value for money. Service departments were allowed to manage their own procurement services using the tools and guidance provided by the procurement department of the Council. This system has its merits in that it gives the departments the autonomy required to be agile in their procurement process and to source goods and services from suppliers that they deem most suitable. The disadvantages were the lack of effective monitoring from the central procurement team, exacerbated by the lack of an effective electronic procurement system to enable consistency in approach. With a decentralised procurement system, it is also harder to promote value for money as departments can source their own suppliers.

In response to significant control weaknesses that emerged following the internal audit review of procurement, the Council acted to address the issues and we understand that the Council is now in the process of implementing a new centralised procurement function. It is also in the process of implementing an e-procurement system, but no go-live date has yet been confirmed.

We note that the issue of procurement on a Council contract that Internal Audit reviewed was identified by an external party through the Freedom of Information FOI request and had not been identified by the Council's internal processes. This raises concerns about the effectiveness of the existing arrangements at the Council to monitor procurement compliance. Compliance monitoring arrangements should be reviewed as part of the ongoing implementation of the centralised procurement function. Our review of internal audit reports and Audit and Governance Committee papers identified that the Council does not consistently report the use of procurement waivers to the Audit & Governance Committee. We have made an improvement recommendation to review and strengthen arrangements in the context of the procurement control weaknesses noted.

The table below sets out the volume and value payments processed during 2020/21 to give an indication of the scale of transactions that may be subject to contract procurement regulations.

Quarter	# of items > £500 paid	Value £'000 of items > £500 paid
Q1 2020/21	2,916	26,833
Q2 2020/21	1,151	6,904
Q3 2020/21	2,200	12,297
Q4 2020/21	2,760	15,815
Total	9,027	61,849

Procurement Team

The Council has recently undergone reorganisation and the procurement department is currently overseen by the Council's Internal Audit Manager who is also the Council's Chief (Internal) Audit Executive. Our assessment of this arrangement is that it creates risks of independence as well as 'self-review' threats and we have raised recommendations in this report in relation to the matter. We have dealt with this issue under the Governance theme set out in the previous section.

Significant weakness– control failures in Procurement

We note that post 2020/21 year end, and as part of the 2021/22 audit plan, Internal Audit had found significant control issues with procurement for works for a Council contract. We consider that the extent of the issues identified in the report are of sufficient magnitude to raise a significant weakness in arrangements and two key recommendations identified. We have also made one improvement recommendation.

Conclusion

Overall, except for the significant weakness regarding procurement compliance, there were no further significant weaknesses identified in the Council's governance arrangements for securing economy, efficiency and effectiveness. We have identified a significant weakness in procurement arrangements and made a key recommendation to assess the wider extent and impact of these control issues. We have also made an improvement recommendation aimed at strengthening the arrangements at the Council for improving economy, efficiency and effectiveness.

Improvement recommendations

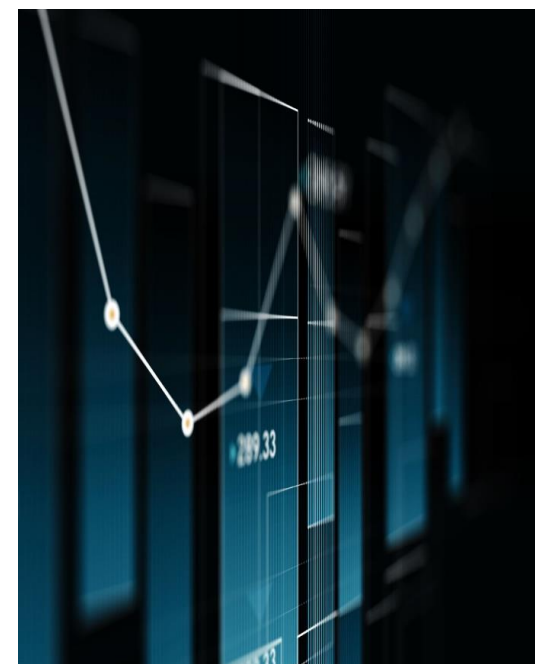


Improving economy, efficiency and effectiveness

1. Recommendation The Council has opportunities to improve on the Corporate Performance Reporting in the following ways:

- To better align the performance report and KPIs to the Council's strategic priorities.
- To develop and include performance indicators for Council's priority of becoming financially sustainable by 2023
- The Council should consider how the use of cost benchmarking information could be used to monitor delivery on a more routine basis.

Why/impact	Implementing the above will lead to goal congruence across the Council and enable officers and members assess progress towards attainment of Council's priorities.
Summary findings	The Council produces a corporate performance indicator quarterly to report performance across services carried out by the Council. Our review of the Q4 2020/21 report identified that the report was easy to understand and uses a good combination of symbols, numbers and commentary. The PI's could make better use of benchmarking against Councils of similar size in the England. Lastly, the PI's did not have any metric to monitor Financial Sustainability, despite this being an increasingly important priority.
Management comment	<p>The KPI's now in place align the performance report and KPIs to the Council's strategic priorities. Performance Indicators in relation to the Council's priority of becoming financially sustainable by 2023 are now in place. These PI's are recorded in Pentana and are regularly reviewed by managers and reported on to members and management.</p> <p>With regard to Benchmarking, we accept this recommendation. There are the "Key Financial Indicators" and "Headline Report" reports available via the LGA about cost of services and other Councils that we have access to for this purpose. Ensuring a comparison is done on a like for like basis is key to this process in order to ensure it is meaningful.</p>



The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations



Improving economy, efficiency and effectiveness

2. Recommendation	The Council should continue to develop and agree a robust business case for the Tawd Valley Development Limited and define the performance indicators through which the Council will continue to review and evaluate performance of the subsidiary for the short, medium and long-term.
Why/impact	Clearly defined and agreed performance indicators will give clarity to officers of the subsidiary and enable the Council to track performance against agreed objectives.
Summary findings	Tawd Valley Developments Limited is a wholly-owned subsidiary of the Council established in 2018 to provide quality, value for money, homes across a range of tenures for the people of West Lancashire. The company commenced commercial operations since 2018 and is subject to ongoing monitoring by the Council. We note that the subsidiary has been subject to independent review over the three years its been engaged in commercial activities. This indicated the need for significant revisions to the assumptions used in the original business case.
Management comment	The revised Business Plan for Tawd Valley Developments will be presented to Council in February 2023. This sets out the focus of future activity of the company and progress and performance is monitored through the cross party Shareholder Committee meetings. Once the revised Business Plan is approved, we will look to review the performance indicators and to ensure that these are reported on at each meeting of the Shareholder Committee.



The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations



Improving economy, efficiency and effectiveness

3. Recommendation	Compliance monitoring of procurement arrangements should be reviewed as part of the ongoing implementation of the centralised procurement function. As part of this our review, the presentation of reports on tender and contract procedure waivers to the Audit and Governance Committee should be strengthened.
Why/impact	This would strengthen existing controls over the procurement process.
Summary findings	Our review of internal audit reports and Audit and Governance Committee papers identified that the Council does not consistently report the use of procurement waivers to the Audit and Governance Committee.
Management comment	We note the recommendation. We will include this as standard information in periodic reports to the Audit and Governance Committee.



The range of recommendations that external auditors can make is explained in Appendix C.

COVID-19 arrangements



In March 2020, the Chief Executive implemented an emergency governance structure so that operational decisions could be effectively managed, and that key issues and risks could be escalated quickly to Chief Officers. The Council also responded quickly to adapt service delivery and meet Government requirements.

The Council has been mindful of the impact on the pandemic on its most important resource, its staff. Actions have been put in place to support staff wellbeing and supporting staff remains a key priority for the Council. In aiming to maintain staff wellbeing, the Council has been able to maintain an efficient and effective delivery of its statutory services.

The Council was able to deliver to budget in 2020/21 and 2022/23 with the assistance of Government COVID-19 support funding.

The Council has maintained its quarterly reporting of performance against the targets in the Council Plan throughout the year.

The Council has adapted to new ways of working and was quick to transition staff online at the start of the pandemic, ensuring that key meetings could still be delivered. The Council rolled out agile working across the organisation and ensure that all staff can work flexibly.

Our review to date has not identified any significant weaknesses in the Council's VFM arrangements for responding to the Covid-19 pandemic.

Conclusion

Our review has not identified any significant weaknesses in the Council's VFM arrangements for responding to the COVID-19 pandemic. The Council and its members and officers demonstrated their commitment to protecting the services provided during the unparalleled times of the COVID-19 pandemic.



Appendices

Appendix A - Responsibilities of the Council



Role of the Chief Financial Officer (or equivalent):

- Preparation of the statement of accounts
- Assessing the Council's ability to continue to operate as a going concern

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement.

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) or equivalent is required to prepare 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. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

The Council is responsible for putting in place proper arrangements to secure 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.



Appendix B - An explanatory note on recommendations

A range of different recommendations can be raised by the Council's auditors as follows:

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the Council to discuss and respond publicly to the report.	This will be considered and reported upon in the final Auditor's Annual Report	n/a
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as 'key recommendations'.	Yes	9 to 12
Improvement	These recommendations, if implemented should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council's arrangements.	Yes	15, 18, 19, 23, 24, 25

Appendix C - Risks of significant weaknesses - our procedures and findings

As part of our planning and assessment 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 that we needed to perform further procedures on. The risks we identified are detailed in the table below, along with the further procedures we performed, our findings and the final outcome of our work:

Risk of significant weakness	Procedures undertaken	Findings	Outcome
Financial resilience was identified as a potential significant weakness as part of our work on financial sustainability, see page 4 for more details.	Considered the Council's arrangements in setting, monitoring and reporting the budget.	We are satisfied that the Council has appropriate arrangements in place to ensure it manages risks relating to financial resilience.	Appropriate arrangements are in place, with one improvement recommendation raised in relation to this issue.
Late production and poor quality of the financial statements was identified as a potential significant weakness as part of our work on governance, see page 4 for more details.	Considered the arrangements in place to prepare the financial statements including the response to the audit process.	The Council does not have satisfactory arrangements in place to prepare timely financial statements that are free from material error.	Significant weakness identified with one key recommendation raised in relation to this issue.
The arrangements for governance and improving economy, efficiency and effectiveness for the Council's company Tawd Valley Developments Limited were identified as a potential significant weakness, see page 4 for more details.	Considered the arrangements with the company and the oversight the Council has in place.	We are satisfied the Council has appropriate arrangements in place for the oversight of the Tawd Valley Developments Limited company.	Appropriate arrangements are in place, with one improvement recommendations raised in relation to this issue.
Procurement was identified as a potential significant weakness as part of our work on governance and improving economy, efficiency and effectiveness, see page 4 for more details.	Considered whether the Council has appropriate arrangements in place to ensure procurement procedures are followed	The Council does not have satisfactory arrangements in place to ensure all procurement procedures are followed.	Significant weakness identified with two key recommendations and one improvement recommendation raised in relation to this issue.

