

# Audit Progress Report

Rossendale Borough Council

Audit and Accounts Committee March 2024



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# 01

Section 01:

## **Audit Progress and Audit Planning**

# Audit progress

## Purpose of this report

This report provides the March 2024 Audit and Accounts Committee meeting with an update on progress, since we last reported to the Committee in November 2023 in delivering our responsibilities as your external auditors. It also includes, at Section 2, our commentary on the Council's Value for Money arrangements for 2020/21, 2021/22 and 2022/23.

## 2018/19 Audit

At the July 2023 Committee we reported that the finance team had shifted their focus to produce the Council's unpublished financial statements for 2021/22 and 2022/23 which has resulted in us pausing our audit work for 2018/19. Since the last Committee meeting in November, the Council have published their 2022/23 accounts.

The Council will be aware of the public announcements by the government on the issue of outstanding local audits nationally. In late February, the Department for Levelling up, Housing and Communities (DLUHC) published a joint statement setting out the proposals to clear the backlog. The joint statement and the full consultation proposals, which run until 7 March 2024, can be found using the following links:

[Local audit delays: Joint statement on update to proposals to clear the backlog and embed timely audit - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/addressing-the-local-audit-backlog-in-england-consultation/addressing-the-local-audit-backlog-in-england-consultation)

<https://www.gov.uk/government/consultations/addressing-the-local-audit-backlog-in-england-consultation/addressing-the-local-audit-backlog-in-england-consultation>

The consultation proposes putting a date in law of the 30<sup>th</sup> September 2024 (the "backstop date"), by which point local authorities would publish audited accounts for all outstanding years up to and including 2022/23. The report notes that the backstop date coming into effect is likely to be a factor in local auditors issuing a greater number of modified or disclaimed opinions on outstanding accounts, where there is not enough time to complete all audit work before the deadline. It is the auditors' statutory duty to report on Value for Money (VFM) arrangements, this remains a high priority in the governments proposals.

To ensure delays do not re-emerge once the backlog of local body audit opinions has been cleared, DLUHC proposes to put further backstop dates into law for the publication of audited accounts by local bodies. These would cover the five year audit appointments awarded in 2022 by Public Sector Audit Appointments (PSAA) running from financial years 2023/24 to 2027/28. The backstop date for the audit of the 2023/24 accounts is proposed to be 31 May 2025. The measures are being suggested as a way for auditors to rebuild assurance over several audit cycles, as a result of the anticipated increase in modified and disclaimer opinions, due to the backstop date.

Furthermore, the National Audit Office have launched a four week consultation seeking views on changes to the Code of Audit Practice, which sets out how local auditors in England meet their responsibilities under the Local Audit and Accountability Act 2024. One of the consultation proposals is that the Auditor's Annual Report is published each year by 30 November and summarises the audit work completed in the previous 12 months. The NAO consultation also runs until 7 March 2024 and can be found using the following link:

[Code of Audit Practice Consultation - National Audit Office \(NAO\)](https://www.nao.org.uk/consultations/code-of-audit-practice-consultation)

Following the completion of the consultation process we will report the outcome to the Audit and Accounts Committee including the timing and impact on the audits of the 2018/19 to 2022/23 accounts, which would be subject to the proposed backstop date of 30 September 2024.

# 02

Section 02:

**Commentary on VFM arrangements for  
2020/21, 2021/22 and 2022/23**

# Commentary on VFM arrangements

## Overall summary



# VFM arrangements – Overall summary

## Approach to Value for Money arrangements work

We are required to consider whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out and sets out the reporting criteria that we are required to consider. The reporting criteria are:



**Financial sustainability** - How the Council plans and manages its resources to ensure it can continue to deliver its services



**Governance** - How the Council ensures that it makes informed decisions and properly manages its risks



**Improving economy, efficiency and effectiveness** - How the Council uses information about its costs and performance to improve the way it manages and delivers its services

Our work is carried out in three main phases as set out below. Audit work has not yet been carried out on Rossendale Borough Council's accounts for any years after 2018/19. In 2020/21 the current VFM arrangements outlined above came into effect. We have combined our VFM arrangements work, and the commentary reported in this document, to cover the years from 2020/21 to 2023/24. When we complete the audit of each year's accounts we will update our VFM work and present our commentary in the Auditor's Annual Report for each year.

### Phase 1 - Planning and risk assessment

At the planning stage of the audit, we undertake work so we can understand the arrangements that the Council has in place under each of the reporting criteria; as part of this work we may identify risks of significant weaknesses in those arrangements.

We obtain our understanding of arrangements for each of the specified reporting criteria using a variety of information sources which may include:

- NAO guidance and supporting information
- Information from internal and external sources including regulators

- Knowledge from previous audits and other audit work undertaken in the year
- Interviews and discussions with staff and directors

Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest there are further risks of significant weaknesses.

### Phase 2 - Additional risk-based procedures and evaluation

Where we identify risks of significant weaknesses in arrangements, we design a programme of work to enable us to decide whether there are actual significant weaknesses in arrangements. We use our professional judgement and have regard to guidance issued by the NAO in determining the extent to which an identified weakness is significant.

We outline the risks that we have identified and the work we have done to address those risks on pages 9 and 10.

### Phase 3 - Reporting the outcomes of our work and our recommendations

We are required to provide a summary of the work we have undertaken and the judgments we have reached against each of the specified reporting criteria in this Auditor's Annual Report. We do this as part of our Commentary on VFM arrangements which we set out for each criteria later in this section.



We also make recommendations where we identify weaknesses in arrangements or other matters that require attention from the Council. We refer to two distinct types of recommendation through the remainder of this report:

- **Recommendations arising from significant weaknesses in arrangements**  
We make these recommendations for improvement where we have identified a significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Where such significant weaknesses in arrangements are identified, we report these (and our associated recommendations) at any point during the course of the audit.
- **Other recommendations**  
We make other recommendations when we identify areas for potential improvement or weaknesses in arrangements which we do not consider to be significant but which still require action to be taken

The table on the following page summarises the outcomes of our work against each reporting criteria, including whether we have identified any significant weaknesses in arrangements or made other recommendations.

# VFM arrangements – Overall summary

## Overall summary by reporting criteria

Reporting criteria	Commentary page reference	Identified risks of significant weakness?	Actual significant weaknesses identified?	Other recommendations made?
 <b>Financial sustainability</b>	11	Yes	Yes	No
 <b>Governance</b>	14	Yes	Yes	No
 <b>Improving economy, efficiency and effectiveness</b>	17	Yes	Yes	Yes



# VFM arrangements – Improving Economy, Efficiency and Effectiveness

## Risks of significant weaknesses in arrangements

We have outlined below the risks of significant weaknesses in arrangements that we have identified as part of our continuous planning procedures, and the work undertaken to respond to each of those risks.

Risk of significant weakness in arrangements	Work undertaken and the results of our work
<p>1</p> <p><b>Financial Sustainability</b> The Council have historically used reserves as a way of bridging their funding gap, as well as recording overspends against their annual budget.</p> <p>There is a risk of significant weakness in the Council's arrangements for financial sustainability due to their projected annual budget deficits and the need for the Council to bridge its funding gaps and identify achievable savings.</p>	<p><b>Work undertaken</b> To address this risk we have:</p> <ul style="list-style-type: none"> <li>• Discussed with senior management the Council's approach to budget setting and monitoring, including identifying savings;</li> <li>• Reviewed the Council's quarterly finance monitoring reports;</li> <li>• Reviewed the Council's MTFS reports; and</li> <li>• Reviewed the Council's final outturn position and the level of usable reserves held.</li> </ul> <p><b>Results of our work</b> We have reviewed the Council's budget position and the actual outturn against their savings forecast. The Council have consistently used reserves to bridge funding gaps and overspend against their budget. The Council have identified that reserves are insufficient to support the budget in the medium term, and without significant savings being identified in the coming years are facing serious financial challenge. In our view this is evidence of a significant weakness in the arrangements for financial sustainability.</p> <p>A summary of the significant weaknesses in arrangements identified and associated recommendations for improvements is provided on page 20.</p>
<p>2</p> <p><b>Financial Reporting</b> The Council's finance function has historically been under resourced and there have been significant delays in the accounts production and publication process.</p> <p>Given the Council's financial position, having timely financial statements is crucial to ensuring that decision making is based on accurate information. There is a risk of significant weakness to the Council's governance arrangements as a result of not having proper accounts production processes in place.</p>	<p><b>Work undertaken</b> To address this risk we have:</p> <ul style="list-style-type: none"> <li>• Reviewed the Council's arrangement to produce its financial statements;</li> <li>• Discussed with senior management the capacity of the finance function and the skill mix within the team; and</li> <li>• Considered the evidence from our audit work on the 2018/19 financial statements, which was paused to allow the finance team to focus on preparing the delayed financial statements.</li> </ul> <p><b>Results of our work</b> In our view the significant delay in the production of the financial statements over recent years is evidence of a significant weakness in the Council's governance arrangements.</p> <p>A summary of the significant weaknesses in arrangements identified and associated recommendations for improvements is provided on page 21.</p>

# VFM arrangements – Improving Economy, Efficiency and Effectiveness

## Risks of significant weaknesses in arrangements

We have outlined below the risks of significant weaknesses in arrangements that we have identified as part of our continuous planning procedures, and the work undertaken to respond to each of those risks.

Risk of significant weakness in arrangements	Work undertaken and the results of our work
<p>3</p> <p><b>Rosendale Leisure Trust</b> The Council have had a close working relationship with Rosendale Leisure Trust in recent years, the current arrangement sees the Council paying the staff salaries on behalf of the Trust. There has been a growing debt owed by the Leisure Trust to the Council with no repayment plan in place or impairment recognised.</p> <p>We consider there to be a risk of significant weakness in the governance arrangements due to there not being a formal contract in place between the Council and the Leisure Trust.</p>	<p><b>Work undertaken</b> To address this risk we have:</p> <ul style="list-style-type: none"> <li>• Discussed with management on the arrangements in place;</li> <li>• Reviewed minutes from committee meetings; and</li> <li>• Reviewed reports commissions by external advisors on the relationship and action place in place.</li> </ul> <p><b>Results of our work</b> In our view the working arrangements are evidence of a significant weakness in respect of governance and partnership working.</p> <p>A summary of the significant weaknesses in arrangements identified and associated recommendations for improvements is provided on page 22.</p>
<p>4</p> <p><b>Key financial controls</b> The Council's Internal Auditors have reported weaknesses in the key financial controls, particularly the bank reconciliation and the reconciliations between feeder systems and the general ledger.</p> <p>We consider there to be a risk of significant weakness in the governance arrangements relating to the control weaknesses in financial systems.</p>	<p><b>Work undertaken</b> Our work is ongoing against this risk. We have:</p> <ul style="list-style-type: none"> <li>• Reviewed the latest completed bank reconciliation;</li> <li>• Discussed with management on the arrangements in place to complete the reconciliations; and</li> <li>• Reviewed the reporting to the Audit &amp; Accounts Committee.</li> </ul> <p><b>Results of our work</b> In our view the working arrangements are evidence of a significant weakness in respect of the completion and review of monthly bank reconciliations.</p> <p>A summary of the significant weaknesses in arrangements identified and associated recommendations for improvements is provided on page 23.</p>

# Commentary on VFM arrangements

## Financial Sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services



# VFM arrangements – Financial Sustainability

## Overall commentary on the Financial Sustainability reporting criteria

### Background to financial sustainability in 2020/21, 2021/22 and 2022/23

Since March 2020 local authorities have faced a period of unprecedented challenge both financially and economically, as they are responding to the impact of, and recovery from, the global coronavirus pandemic. This has led to significant changes in how the Council operates and delivers services to the residents and businesses of Rossendale.

The Council entered into the 2020/21 financial year during the first lockdown. Despite there being an easing of lockdown restrictions during 2021/22 and 2022/23, the financial and operational challenges faced by the Council as a result of the pandemic has continued to be significant. Some of the Government's initiatives to respond to the pandemic were supported by additional funding. The Council received significant funding in 2020/21 which includes grants to support its COVID-19 response of £4,016k. The Council received COVID-19 related grants of £7,961k in 2021/22.

The Council has faced further financial challenges in 2022/23 as a result of growing inflationary pressures within the UK economy coupled with the increasing demand for Council services. In response to these pressures it is essential the Council has timely and accurate financial reporting to members and senior management, and decision makers make prompt decisions to maintain the financial sustainability of the Council.

### The Council's financial planning and monitoring arrangements

The Council set balanced budgets for 2020/21, 2021/22 and 2022/23 with planned use of reserves to bridge funding gaps. The tables below demonstrate the key financial information and performance.

	2020/21 (£000's)	2021/22 (£000's)	2022/23 (£000's)
<b>Budgeted revenue net expenditure</b>	9,006	8,903	8,991
<b>Actual revenue net expenditure</b>	9,321	9,113	10,002
<b>Overspend</b>	315	210	1,011

	2020/21 (£000's)	2021/22 (£000's)	2022/23 (£000's)
<b>Budgeted use of reserves</b>	686	606	56
<b>Actual use of reserves</b>	14	816	775
<b>General Fund reserves</b>	1,000	1,000	1,000
<b>Earmarked Reserves</b>	9,196	9,566	7,484
<b>...of which relate to Transitional Reserve and Business Rates Retention Reserve</b>	5,857	6,289	4,091

As the tables above demonstrate, the Council has overspent against its budget each year and has significantly exceeded its planned use of reserves to bridge the funding gaps. The use of reserves in this way is unsustainable and in order to be financially viable the Council must ensure its annual spending is in line with its available resources for that year.

The Council does implement a financial and budget planning process that includes a range of activities and consultations. The budget setting process involves engagement with senior Council officers, and incorporates discussion about the delivery of statutory services and priorities. Where additional resources are required to deliver services these are scrutinised and challenged before they are included in the budget estimates. Service area business plans are updated annually to align with the Council's overall corporate priorities. The service area business plans are used to highlight areas of potential savings and are monitored on a quarterly basis with the s151 Officer. Any under performance or budget variances would be identified and brought to members attention through quarterly reporting. Despite these measures, however, the Council has repeatedly reported budget overspends with funding gaps being met by unplanned use of reserves. The Council's medium term financial sustainability must be based on a strategy of spending within available resources. We have reviewed a sample of the budget setting and monitoring reports and they clearly report the impact of the current financial position and projections on the future financial sustainability. The reports have not however led to demonstrable action by the Council to reduce spending to the levels of available resources each year.

# VFM arrangements – Financial Sustainability

## Overall commentary on the Financial Sustainability reporting criteria - continued

### The Council's arrangements for identifying, managing and monitoring funding gaps and savings

The Medium Term Financial Strategy (MTFS) is a three year plan which sets out the Council's commitment to provide quality services that meet the needs of people locally and that represent good value for money within the overall resources available to it.

A key part of the strategy is to highlight the budget issues that will need to be addressed by the Council over the coming financial years. The Council do this by forecasting the level of resources and budget pressures, relating to both capital and revenue spending. The Council also assess whether sufficient reserves and provisions are held for past and unknown events which may impact on the Council's resources. The MTFS is closely interlinked to other Council plans and strategies such as the Corporate Strategy, Capital Programme and Annual Revenue Budget.

Quarterly financial monitoring reports are taken to Cabinet which give members an update on the Council's financial position against budget. Departmental overspends and variances are reported and any changes are given a risk rating. Savings are identified as part of the budget setting process, but these have not been delivered to a sufficient extent to ensure spending is in line with the available resources.

### Council's approach to 2023/24 financial planning

The Council's arrangements for the 2023/24 budget setting process has largely followed the arrangements in place for 2022/23.

The budget for 2023/24 was approved at the February 2023 Council meeting. The Council set a balanced budget with total net expenditure for Council services of £10,256k with an increase in Council tax of 2.99%. The 2023/24 budget includes £139k of identified savings and efficiencies. The Council budget planned to use a further £756k of reserves, to bridge the funding gap that has been identified in the year, this was budgeted to come from the transitional reserve.

The Quarter 2 financial report to Cabinet in December 2023 shows an adverse variance against the original net expenditure budget of £51k to be funded from the General Fund.

The MTFS that was presented alongside the 2023/24 budget demonstrates clearly the Council's challenging financial position. The MFTS projects funding gaps in 2024/25, 2025/26 and 2026/27 of £857k, £1,514k and £1,564k respectively, and that these gaps will continue to be bridged through the use of reserves. The Council currently projects that the General Fund reserve will be exhausted by 2025/26. The 2024/25 MTFS, presented as part of the 2024/25 budget process shows an updated position and reports funding gaps in each year met

from use of reserves totalling £3,665k to 2027/28, with a projected level of reserves at the end of 2027/28 of only £1,088k.

### Rossendale Leisure Trust

Rossendale Leisure Trust (RLT) is a Community Benefit Society that manages a portfolio of the Council's leisure and sports facilities. The Council and the Trust have a close working relationship. Until May 2023 the Council had a long-standing arrangement to pay the Trust's pay and non-pay expenditure and the Trust would repay this. In May 2023 this changed and the Council now limits this arrangement to just the pay expenditure costs. This financial arrangement exposes the Council to the significant risk if the Trust is unable to reimburse the Council for their expenditure, further depleting the Council's available resources. During the COVID-19 pandemic and into the cost of living crisis, RLT have been given financial support by the Council which has resulted in a significant balance currently being owed to the Council. There is no repayment plan in place to repay the debt owed and the Council have not yet accounted for any impairment of this balance, working on the assumption it will be repaid in full. Consequently the Council's reserves position reported to members does not include the impact of any uncollectable debt owed to the Council. The debt has continued to increase, and the Council needs to assess, manage and mitigate the risk that the Council will not receive the full amount owed.

The Council commissioned a report highlighting the risks to the Council of the relationship with RLT. The report highlighted that if the total amount owed to the Council was determined to be irrecoverable then there would be a significant financial impact to the Council which has not been factored into the Medium Term Financial Strategy. This would accelerate the rate at which reserves are fully utilised, quicker than has been reported to Council.

**Based on our above considerations we consider that the Council does not have adequate arrangements in place to deliver financial sustainability in the medium term. We have therefore reported a significant weakness in the Council's arrangements in relation to financial sustainability. We have included details of this significant weakness on page 20.**

# Commentary on VFM arrangements

## Governance

How the body ensures that it makes informed decisions and properly manages its risks



# VFM arrangements – Governance

## Overall commentary on the Governance reporting criteria

### The Council's risk management and monitoring arrangements

The Council has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of effectiveness, economy and efficiency. In doing this it is responsible for putting in place proper arrangements for the governance of its affairs, effective exercise of its functions and arrangements for the management of risk.

The Council has an established risk management framework and systems in place which are built into the governance structure of the organisation. The Council's Constitution details that the Audit and Accounts Committee is responsible for reviewing and monitoring those arrangements.

The Council has adopted a Risk Management Strategy which sets out the approach to managing risk. The strategy was last updated in 2016. We have included an other recommendation on page 12 relating to project managing the updating of policies and strategies to ensure they are kept up to date and relevant. The Council has a Corporate Risk Register, risks are reviewed on a quarterly basis and reported to the Audit and Accounts Committee. At the November 2023 meeting the quarterly report categorised 4 risks as low, 3 as medium and 2 as high. The high risks are those linked with the Council's medium term financial sustainability and the Council's owned leisure assets.

The Committee review the risks and challenge officers on the actions taken to address the risks. The role in taking decisions to reduce the risk levels lies outside of the Audit & Accounts Committee, with the Council, the Cabinet, or the Senior Leadership Team under delegated powers. We have not seen evidence of the Council taking appropriate actions to mitigate the risks and reduce the risk level.

The Council's Internal Audit is provided by Lancashire County Council. The annual Internal Audit plan is developed by the Head of Internal Audit, agreed with management at the start of the financial year and is reviewed by the Audit and Accounts Committee prior to final approval. The audit plan is based on an assessment of risks that the Council faces and is designed to ensure that there is assurance on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control. The planned work can be supplemented if necessary by ad hoc reviews on suspected irregularities and other work to respond to emerging risks and issues. We have reviewed the Internal Audit plans for 2021/21, 2021/22, 2022/23 and 2023/24 and confirmed that they are consistent with the risk-based approach.

Internal Audit progress reports are presented to Audit and Accounts Committee meetings including follow up reporting on recommendations. At the end of each financial year the Head of Internal Audit provides an Annual Report including an opinion on the Council's governance, risk and control framework based on the work

completed during the year. The Annual Report is presented at the July Audit and Accounts Committee, in July 2023 the Head of Internal Audit's overall opinion on the Council's control environment in 2022/23 was "moderate assurance". The same level of assurance has been given during 2020/21 and 2021/22.

### Decision making arrangements and control framework

The Council has an established governance structure in place which is set out within its Annual Governance Statement (AGS). The Annual Governance Statement is a critical component of the Council's governance arrangements. It is an evidenced self-assessment by the Council on the Council's governance, assurance and internal control frameworks for the financial year. The AGS is formally signed by the Chief Executive and Leader of the Council. The Governance Structure, as described in the AGS includes amongst other things the Constitution which sets out the approach to decision making. The Constitution is kept under review and updated as required. The Overview and Scrutiny Committee are in place to formally challenge the Council's decision making process.

As commented on in the financial sustainability section, the Council have a close working relationship with Rossendale Leisure Trust (RLT). We have requested evidence that there is an overarching agreement or contract in place between the Council and the Trust, but the Council have not been able to provide this evidence of sound governance arrangements. This agreement would serve to protect the Council from risks associated with the partnership especially considering the significant debt owed by RLT at the time of reporting. It is our view that this is evidence of there being a significant weakness in the Council's arrangements with regards to properly informed decision making of the Council.

The Council have had significant difficulties with the reconciliations that they perform as part of their day to day financial monitoring. The Council do not currently prepare monthly bank reconciliations and there have been large historic differences in the year end reconciliations dating back a number of years. The last bank reconciliation prepared was as at March 2023, there was a significant unidentified reconciling difference recorded on this reconciliation.

The Council has focused its efforts on clearing old reconciling items with an aim of settling all historic differences by March 2024. Internal Audit have reported the weaknesses in their reports to the Audit and Accounts Committee but this has not yet led to the required improvements in the control arrangements. Whilst it is important that historic errors are corrected, this should not be at the expense of current financial control procedures.

# VFM arrangements – Governance

## Overall commentary on the Governance reporting criteria - continued

### Financial Statements

At the start of 2023 the Council was facing a significant backlog in the production of their annual financial statements, at the time having only produced 2019/20 accounts as the most recent publication. The 2020/21 and 2021/22 financial statements were both published in late 2023 and the 2022/23 financial statements were published in early 2024. While we acknowledge the challenges the Council has faced in addressing the backlog, the production of timely and accurate financial statements is a statutory responsibility and one that is crucial to a system of effective governance. Given the Council's financial position, having timely financial statements is critical to ensure decision making is based on accurate information, especially the level of resources available to the Council to assist in setting future budgets.

The historic delay in publishing financial statements is evidence of the Council not having adequate arrangements in place.

The Council's finance team had a long period of not been fully resourced which had an impact on the Chief Financial Officer's involvement in the account's preparation process. The Council's arrangements to produce the outstanding sets of accounts has relied heavily on the detailed knowledge and experience of the Chief Financial Officer. This is not a sustainable position. The Council's finance team is now fully staffed and they are starting to develop their knowledge and experience on Local Government accounting and reporting. The Council should ensure that they have a development and training plan in place which will ensure that its finance team are able to produce the financial statements for 2023/24 and future years with an appropriate level of input from the Chief Financial Officer.

The audit work we have carried out to date on the 2018/19 audit has highlighted that the draft financial statements submitted for audit were of a poor quality and significant difficulties have been encountered during the course of the audit. The problems have been exacerbated by a lack of good quality supporting underlying records and working papers. The lack of any remaining staff at the Council with knowledge of the 2018/19 accounts closedown has exacerbated the challenges.

**Based on our above considerations we consider that the Council does not have adequate governance arrangements in place. We have therefore reported a significant weakness in the Council's arrangements in relation to governance. We have included details of these significant weaknesses on page 21, 22 and 23.**



# Commentary on VFM arrangements

## Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services



# VFM arrangements – Improving Economy, Efficiency and Effectiveness

## Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria

### The Council's arrangements for assessing performance and evaluation service delivery

The Council prepares performance monitoring and financial monitoring reports which are regularly reported throughout the year. Quarterly performance management reports are presented to the Overview and Scrutiny committee. These reports are presented alongside narrative reporting of actual performance, progress to achieving targets, current and known future challenges and an assessment of how the Council is performing. The Council reports on a quarterly basis how they are performing against their KPI's, any underperformance would be raised to members. We have reviewed a sample of the reports and can confirm that the information within is presented in an understandable format for committee members to make informed decisions.

The Council's objectives are set out in its Corporate Plan 2021-2025. The Council's strategy focuses around the following core areas:

- Thriving local economy
- High quality environment
- Healthy and proud communities
- Effective and efficient Council

The Council's Medium Term Financial Plan ties into the Corporate Plan to ensure that funding is targeted as appropriate towards the Council's priorities. The monitoring of the achievement of the Corporate Plan priorities is considered during the Council's quarterly reporting. Additionally, a Operations Service Improvements board has been set up as a direct result of the financial and operational performance.

### The Council's arrangements for effective partnership working

The Council has a number of partnerships with a range of organisations which is consistent with the sector in which they operate. These include service delivery partnerships, statutory partnerships and commercial partnerships.

The Council does not have a good record with partnership working, as demonstrated with the Empty Homes project which was highlighted by the predecessor auditors in their value for money reporting. In our view the partnership working with Rossendale Leisure Trust, as previously mentioned within this report, is evidence of ineffective arrangements for partnership working. Whilst the basis for the Council's relationship with

Rossendale Leisure Trust is to provide services to the local community; the Council does not have appropriate controls or operating arrangements to deliver effective services to service users. These lack of controls and the approach the Council takes in their partnership working is evidence that there is a significant weakness in the Council's arrangements.

### The Council's arrangements for procurement and commissioning services

The Council's Constitution contains a chapter on the Contract Procedure Rules. The Council also sets the detailed process the Council must follow when procuring goods and services. The Procurement Strategy was due to be updated in 2020 however this is still yet to be done. It is important that the Council has a clear and up to date policies to ensure that that the procedure and requirements are clear and to protect the Council when entering into agreements with third parties. We have raised the following as an 'other recommendation'.

#### Other recommendation

1	The Council has a number of policies that are out of date and require reviews and updating.	The Council should ensure it has a programme in place to review Council policies and update as necessary. This ensures management are acting in a lawful and compliant way to provide services for the local community.
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**Based on our above considerations we consider that the Council does not have adequate arrangements in place. We have therefore reported a significant weakness in the Council's arrangements in relation to improving economy, efficiency and effectiveness. We have included details of this significant weakness on page 22.**

# Commentary on VFM arrangements

Identified significant weaknesses in arrangements and our recommendations



# Identified significant weaknesses and our recommendations

## Identified significant weaknesses in arrangements and recommendations for improvement

As a result of our work we have identified significant weaknesses in the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources. These identified weaknesses have been outlined in the table below.

Identified significant weakness in arrangements	Financial sustainability	Governance	Improving the 3Es	Recommendation for improvement	Our views on the actions taken to date
<p>1 <b>Financial Sustainability</b>                      The Council's budgets for 2020/21, 2021/22 and 2022/23 all relied upon the use of reserves to bridge funding gaps. In addition, the Council's outturn position for each of these years were overspent. The Medium Term Financial Strategy (presented to Council in February 2023) projected funding gaps in 2024/25, 2025/26 and 2026/27 of £857k, £1,514k and £1,564k. The growing deficit is forecast to exhaust the Council's General Fund reserve by 2025/26, which is evidence of an unsustainable reliance on reserves and a lack of action to address the underlying reasons for persistent overspending.</p> <p>In our view the failure to address the underlying deficit is evidence of a significant weakness in the Council's arrangements for financial sustainability (how the Council plans to bridge its funding gaps and identify achievable savings) in 2020/21, 2021/22 and 2022/23.</p>	●			<p>The Council should develop sustainable financial plans to ensure services can be provided within available resources. Specifically, the Council should:</p> <ul style="list-style-type: none"> <li>• undertake a baseline assessment of the affordability of services and funding available against Council priorities;</li> <li>• develop a detailed plan to address the deficit; and</li> <li>• ensure sufficient information is available to monitor and deliver planned savings.</li> </ul>	<p>Our work has been completed in early 2024 and will be followed up in subsequent periods.</p>

# Identified significant weaknesses and our recommendations

## Identified significant weaknesses in arrangements and recommendations for improvement - continued

Identified significant weakness in arrangements	Financial sustainability	Governance	Improving the 3Es	Recommendation for improvement	Our views on the actions taken to date
<p>2 <b>Weaknesses in Financial Reporting</b>                      Since the 2018/19 financial year, the Council has not produced and published draft accounts according to the statutory reporting timetable. Specifically, the 2020/21 and 2021/22 accounts were both published in late 2023 and the 2022/23 accounts were published in early 2024. The Council has had an annual financial statements closedown plan in place, this has not been followed in 2020/21, 2021/22 and 2022/23.</p> <p>The Council's finance team has historically been under-resourced and the Chief Financial Officer has had to personally deliver operational duties involved in the production of the accounts. Within 2022/23, the Council recruited additional finance staff to address the under-resourcing but many new team members have limited local authority experience.</p> <p>As part of our ongoing audit of the 2018/19 financial statements, we have highlighted a number of shortfalls in the quality of the financial statements submitted for audit and we identified a series of deficiencies with underlying working papers and records. There is no evidence that in the subsequent period that any improvement has been made. In our view this is evidence of a significant weakness in the Council's arrangements for governance (how the Council ensures effective systems and processes are in place to support its statutory financial reporting requirements), in 2020/21, 2021/22 and 2022/23.</p>		●		<p>The Council should:</p> <ul style="list-style-type: none"> <li>• adhere to the detailed closedown action plan to support production of its annual financial statements in line with the required timescales; and</li> <li>• ensure the finance team has the capacity and capability to produce reliable and fully supported annual financial statements.</li> </ul>	<p>Our work has been completed in early 2024 and will be followed up in subsequent periods.</p>

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<p><b>3 Partnership with Rossendale Leisure Trust</b>            Rossendale Leisure Trust (the Trust) manages a number of the Council's leisure facilities and has done since 2004. During the period 2020/21, 2021/22 and 2022/23, the Council paid for pay and non-pay expenditure incurred by the Trust.</p> <p>During and following the COVID-19 pandemic the Council gave revenue financial support to the Trust including lease payment holidays and grant allocations, this has resulted in a significant balance currently being owed to the Council by the Trust. We have seen no evidence of a repayment plan to repay the debt and the Council has not accounted for any impairment of the balance.</p> <p>Officers have confirmed there is no formal overarching agreement or contract between the Council and the Trust. For a partnership of this size and nature we would expect to see a comprehensive, signed agreement in place that aims to protect the Council's interests. This deficiency in arrangements for the provision of leisure services is evidence of significant weaknesses in the Council's arrangements for governance (how the body ensures it makes properly informed decisions, supported by appropriate evidence) and for improving economy, efficiency and effectiveness (how the Council ensures that commissioned services realise the expected benefits), in 2020/21, 2021/22 and 2022/23.</p>		●	●	<p>The Council should:</p> <ul style="list-style-type: none"> <li>ensure that there is a comprehensive signed agreement in place to formally document the working relationship with Rossendale Leisure Trust;</li> <li>put in place arrangements to recover the debt owed by Rossendale Leisure Trust; and</li> <li>carry out an impairment review of the debt and recognise an expected credit loss where appropriate.</li> </ul>	<p>Our work has been completed in early 2024 and will be followed up in subsequent periods.</p>

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Identified significant weakness in arrangements	Financial sustainability	Governance	Improving the 3Es	Recommendation for improvement	Our views on the actions taken to date
<p><b>4 Key financial controls</b> As part of our ongoing work with the Council, we have noted that the most recent bank reconciliation completed by the Council officers we have observed was as at March 2023. This bank reconciliation, which we have not yet subjected to audit, included a significant unidentified amount.</p> <p>Bank reconciliations are a fundamental basis for the effective operation of financial controls and should be a regular test of the integrity of the Council's general ledger. The lack of completed bank reconciliations is a deficiency in these expected controls. This deficiency, exposes the Council to significant risk in relation to the proper operation of controls and assurance over its general ledger position. Although not material in the context of the accounts audit, this deficiency is significant and in our view is evidence of a significant weakness in governance arrangements (how the Council ensures effective processes and systems are in place to ensure budgetary and communicate relevant, accurate and timely management information) in 2022/23.</p>		●		<p>The Council should:</p> <ul style="list-style-type: none"> <li>• address the backlog of bank reconciliations that have not been completed;</li> <li>• take action to clear and justify reconciling items; and</li> <li>• ensure processes are in place for the preparation and review of monthly bank reconciliations.</li> </ul>	<p>Our work has been completed in early 2024 and will be followed up in subsequent periods.</p>

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